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Grain and Feed Annual Report 2008

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Report Highlights:

Dramatic commodity price hikes have triggered and are driving a structural sea change in food production and food related businesses in Japan, the second largest importer of agricultural products in the world. Except for rice, in surplus this year, Japan relies heavily on imported grains: wheat, 85 percent; barley, 88 percent; corn and sorghum, almost 100 percent. Feed prices have increased by over 35 percent since late 2006. Although subsidies kicked in to somewhat alleviate the impact of the increase, funding may not continue, given the tight government budget situation. Higher input costs for an extended period of time are likely to accelerate the rate of reduction in the number of Japan's livestock producers, and lead to further downward aggregate demand for feed.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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IMPACT OF RAPID PRICE RISES IN GRAINS - Summary

Dramatic commodity price hikes have triggered and are driving a structural sea change in food production and food related businesses in Japan, the second largest importer of agricultural products in the world (approximately 38 billion dollars including forestry and fisheries products). "Food security" has become a major political and social issue as it was during the era of U.S. grain embargoes in the 70's.

Government reaction (policy change)

Despite public statements from the U.S. Department of Agriculture that the United States will remain a reliable supplier, the recent grain price situation has exacerbated concerns over food security in Japan. The fundamental policy response has been a re-sharpened focus on increasing self-sufficiency. The Food Self-sufficiency Improvement Council of the Ministry of Agriculture, Forestry and Fisheries (MAFF), established in April 2005, set forth six objectives for its 2007-08 focus: 1) conduct strategic public relations programs on the importance of raising food self-sufficiency; 2) promote rice consumption; 3) improve self-sufficiency in feed; 4) reduce oil/fat intake; 5) expand vegetable production; 6) spread "food education" campaign (promoting the movement of "Grow locally, consume locally").

Other major policy changes include:

1. In Japan Fiscal Year (JFY) 2007, MAFF revamped its fixed pricing system for selling imported wheat to flour millers. (MAFF, as a state trading enterprise, is practically the sole wheat importer.) For the last 55 years, the wheat resale price was fixed annually. From April 2007, it will be revised semi-annually for a probationary period and three times a year in the future. Subsequently, the wheat resale price was raised by 10 percent in October 2007, and will be raised by a further 30 percent in April 2008, reflecting the surge in international wheat prices and freight rates. (Details in the WHEAT section)
2. MAFF is considering increasing the government stocks of strategic commodities like feed grains and soybeans. (Details in the CORN section)
3. In April 2008, MAFF will create a food security/crisis management section to gather and analyze information, and publish a periodic supply and demand report.

Table 1.

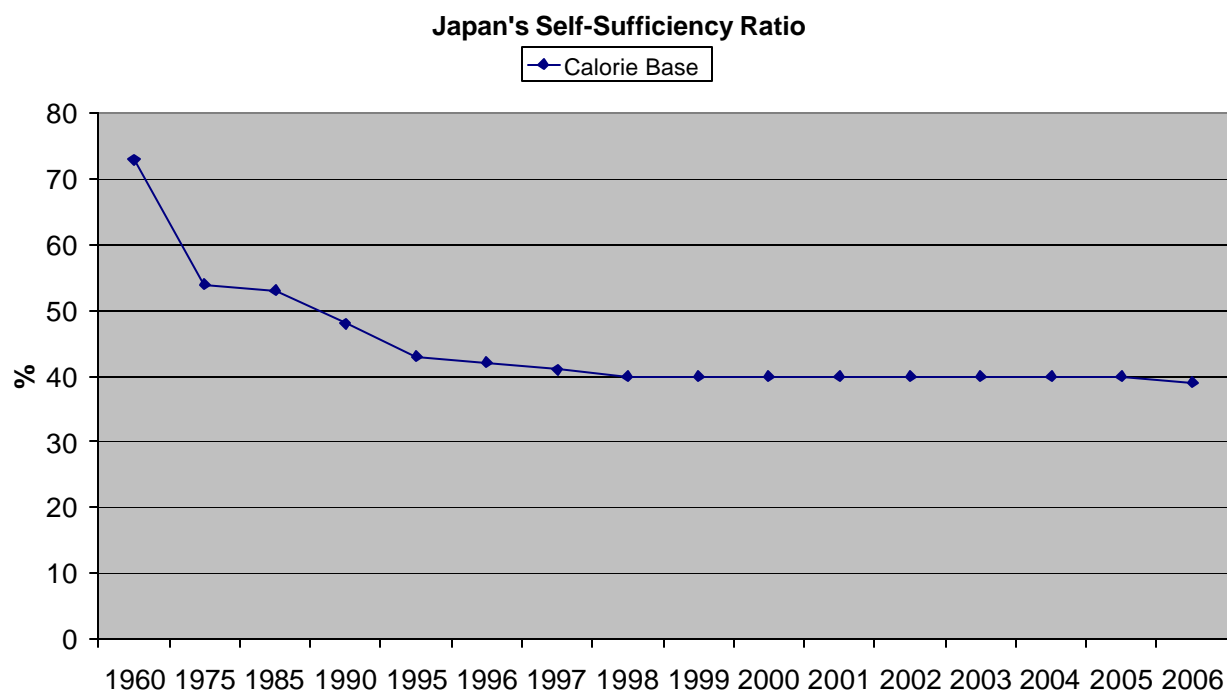
Japan's Self-Sufficiency Ratio (%)

	1960	1975	1985	1990	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006*
Rice	96	110	107	100	99	95	95	95	95	96	95	95	95	94
Wheat	28	4	14	15	9	9	9	11	11	13	14	14	14	13
Beans	25	9	8	8	5	5	6	7	7	7	6	6	7	7
Soybeans	11	4	5	5	3	3	4	5	5	5	4	3	5	5
Vegetables	100	99	95	91	86	84	83	82	82	83	82	80	79	79
Fruit	90	84	77	63	53	49	49	44	45	44	44	40	41	39
Meats	90	77	81	70	56	55	54	52	53	53	54	55	54	55
Beef	95	81	72	51	36	35	36	34	36	39	39	44	43	43
Eggs	100	97	98	98	96	96	96	95	96	96	96	95	94	95
Milk/Dairy Products	86	81	85	78	71	71	70	68	68	69	69	67	68	66
Seafood (for food)	110	100	86	72	60	57	55	53	53	53	57	55	57	59

Sugar	31	15	33	32	29	32	31	29	32	34	35	34	34	32
Self-sufficiency (Calorie Basis)	73	54	53	48	41	40	40	40	40	40	40	40	40	39
Self-sufficiency (Major Food Grains)	80	69	69	67	62	59	59	60	60	61	60	60	61	60
Self-sufficiency (Major Feed Grains)	55	34	27	26	25	25	24	26	25	25	23	25	25	25
Self-sufficiency (Food + Feed Grains)	62	40	31	30	28	27	27	28	28	28	27	28	28	27

Source: MAFF

* Preliminary



In 2000 MAFF announced a food self-sufficiency target of 45 percent on a caloric basis by 2010. Japan's self-sufficiency consistently declined for many years but has remained steady at 40 percent since 1998. Without seeing any success in improving the situation, MAFF announced in 2005 that it had given up achieving the target of 45 percent by 2010. But it will continue targeting 45 percent by 2015. In 2006, the rate finally went below 40 percent.

Trade reaction

The food industry has been under a tremendous crunch between higher input costs and resistance by retailers for price increases because the Japanese economy is still stagnant and retail food prices have stayed flat or deflated in the last two decades. However, starting with wheat based products in fall 2007, manufacturers were forced to increase prices.

One of the largest food importers has launched a joint venture with a multinational firm to operate large scale soybean and grain production in Brazil. (They own about 100,000 hectares.)

Major food manufacturers have been aggressive in mergers and acquisitions to strengthen their purchase power, and to enhance efficiency and logistics. Starting fall 2007, some of these food manufacturers have begun to raise retail prices after two decades of sustained or reduced prices. In 2008, others are expected to follow suit incrementally.

Consumer reaction

Because it has been only a few months since consumers started seeing actual price increases on retail shelves, changes in consumers' purchase behaviors have not been substantiated by data. However, a recent poll conducted by Japan's most popular newspaper showed that 40 percent of respondents said they now try not to buy unnecessary items/quantities; and 27 percent said that they tend to look for discounts.

Farmers

As Japan imports most of its feed grains, Japanese livestock producers are affected most severely by the grain price hikes. Feed prices have increased by over 35 percent (from \$400/MT to \$540/MT) since the last quarter of JFY2006. Subsidies kicked in to pick up most of the increases during 2007 but in 2008 the pool of subsidies will be exhausted and the producers may face devastating cost increases. (Details in the CORN section)

COMMODITY SPECIFIC REPORT

RICE

Production at Normal Year Level, thus Surplus

Rice is the only grain Japan produces self-sufficiently. It has historically been the most important and popular staple in the Japanese diet and is grown throughout Japan. Over 50 percent of Japan's arable farmland is rice paddy, and almost 90 percent of Japanese commercial farmers produce rice.

Table 2.

Japan's Arable Farmland
(In hectares)

Total	Rice Paddy	Upland Field
4,671,000	2,543,000	2,128,000
%	54.4%	45.6%

Source: MAFF
(2006)

Table 3.

Number of Commercial Farmers
(Average Farm Size in hectares)

Total	Rice	Field Crops	Other
1,813,000	1,609,000	1,132,000	349,000
%	88.7%	62.4%	19.2%
Average Farm Size	1.2	1.0	0.6

Source: MAFF (2007)

Note: Due to overlaps in the number of rice farmers, field crop farmers and others, the addition of these three categories exceeds the total number.

Despite some damage caused by typhoons in the southern island of Kyushu, overall national production ended at one percent below a normal year yield for the total volume of 8,714,000 metric tons (MT), brown rice basis. This is still greater than the demand forecast of 8,330,000 MT. This surplus situation quickly drove downward the already stagnant price of rice. The government, led by politicians, ended up implementing an emergency stock set-aside program in late October where 340,000 MT of rice will be segregated from the market and put in government stocks. In addition, Japan's national farm cooperative (JA) will be diverting its table rice stocks (100,000 MT) into feed use. Consequently, the wholesale price of rice rebounded somewhat. Since the rice policy reform (*) began in 2004, the government has been encouraging voluntary acreage reduction to alleviate surplus, however, the fundamental drive among rice producer's to keep planting rice continues to prevail.

(*) As part of its rice policy reforms the Ministry of Agriculture, Forestry and Fisheries (MAFF) has decided to phase out government controls on production by fiscal 2008. As an interim measure, starting in 2004, MAFF ended the production control scheme based on the acreage reduction program. Instead, a production volume target is set for each prefecture based on demand forecasts by a third party.

Table 4.

Japan's Rice Production (Brown Basis)

	Planted Area (1,000 hectares)			Production (1,000 metric tons)			Yield/10 ares (kilograms)	
	Total	Paddy	Upland	Total	Paddy	Upland	Paddy	Upland
2003	1,665	1,660	5	7,792	7,779	13	469	250
2004	1,701	1,697	4	8,730	8,721	9	514	200
2005	1,706	1,702	4	9,074	9,062	12	532	266
2006	1,688	1,684	4	8,556	8,546	10	507	246
2007	1,673	1,669	4	8,714	8,705	9	522	257

Source: MAFF

Consumption in 2006 Declines Further

Japan's Ministry of Agriculture, Forestry and Fisheries' (MAFF) latest "Food Balance Sheet" shows the average annual per capita consumption of rice in 2006 declined slightly from 61.4 kilograms (KG) to 61.0 KG. Despite MAFF's aggressive consumer promotion campaign, there is no sign of recovery in the four-decade-long downward trend. On the contrary, Post projects a further decline in the next decade, given the demographic situation where Japan's population peaked in 2005, faster than previously forecast, and the population is also aging rapidly (one out of four Japanese will be older than 65 by 2015).

Table 5.

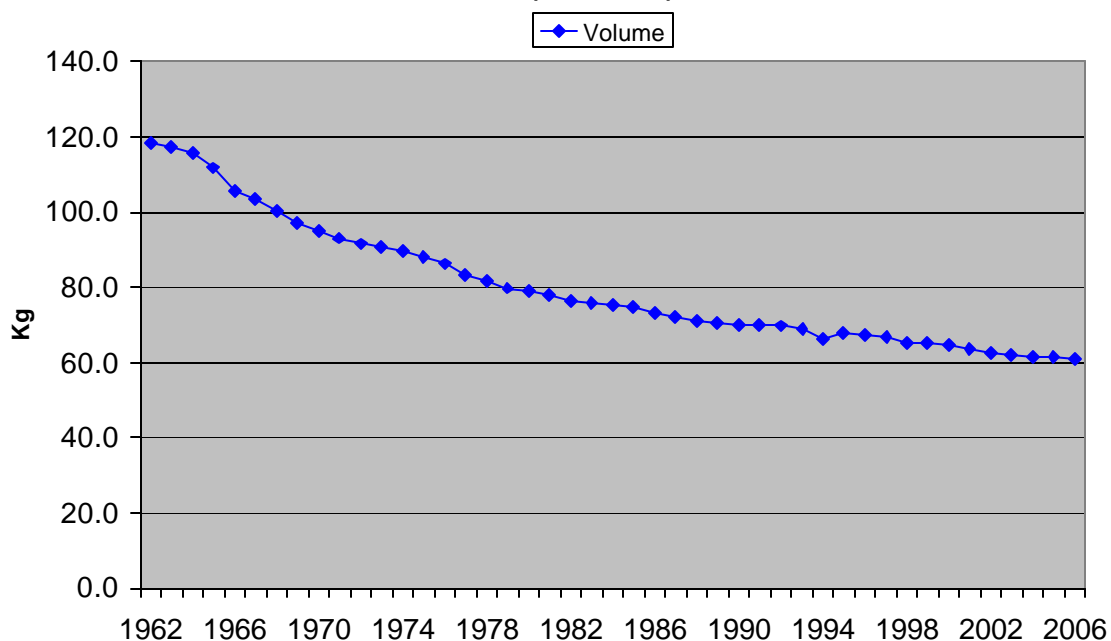
Annual Per Capita Consumption of Rice in Japan (Kilograms)

1962	1965	1975	1985	1995	2004	2005	2006	2007*
118.3	111.7	88.0	74.6	67.8	61.5	61.4	61.0	61.0

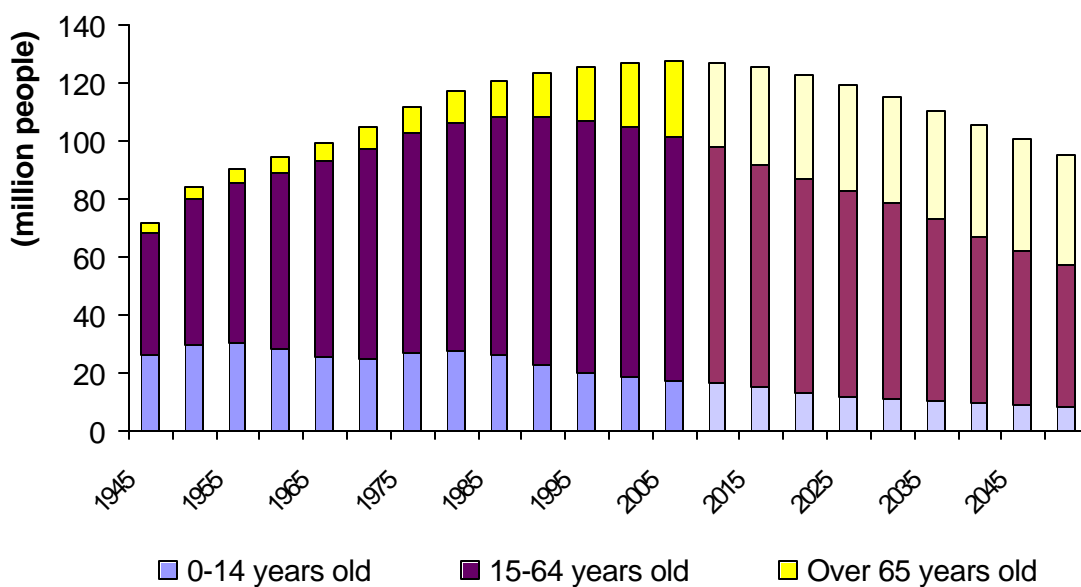
* Ag Office estimate

Source: MAFF

**Per Capita Consumption of Rice in Japan
(1962-2006)**



Japan's Past Demographic Trends and Future Forecast



Source: Compiled by AgAffairs/Tokyo based on the statistics of the Ministry of Health, Labor and Welfare and National Institute of Population and Social Security Research

As a result of a reduction in rice consumption, as well as a decline in price over the years, household expenditures on rice have been cut by more than half during the last two decades. The average Japanese household now spends less than four percent of food expenditures on rice.

Table 6.

Average Monthly Expenditures on Rice by Japanese Household (in Yen)

	1985	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Total Expenditure	273,114	323,008	317,133	308,692	306,129	302,623	304,203	302,903	295,332	297,139
Food Expenditure	73,735	76,590	73,844	71,534	71,286	70,260	70,116	68,910	68,178	68,522
Expenditure on Rice	6,233	3,527	3,291	3,113	2,992	3,041	3,044	2,681	2,523	2,506
% rice/food	8.50%	4.60%	4.50%	4.40%	4.20%	4.30%	4.34%	3.89%	3.70%	3.66%

Source: Ministry of Management, Home Affairs, Post and Telecommunications

*Preliminary

Government Set-aside Program Rescues New Crop Rice Price

The graph below shows the trend in the wholesale traded price of rice at the Rice Price Formation Center. With early indications of 2007 new crop at normal year volume, meaning a surplus, the wholesale price in September and October plunged. However, it appears the government set-aside program, explained in the previous section, led to a recovery in price.

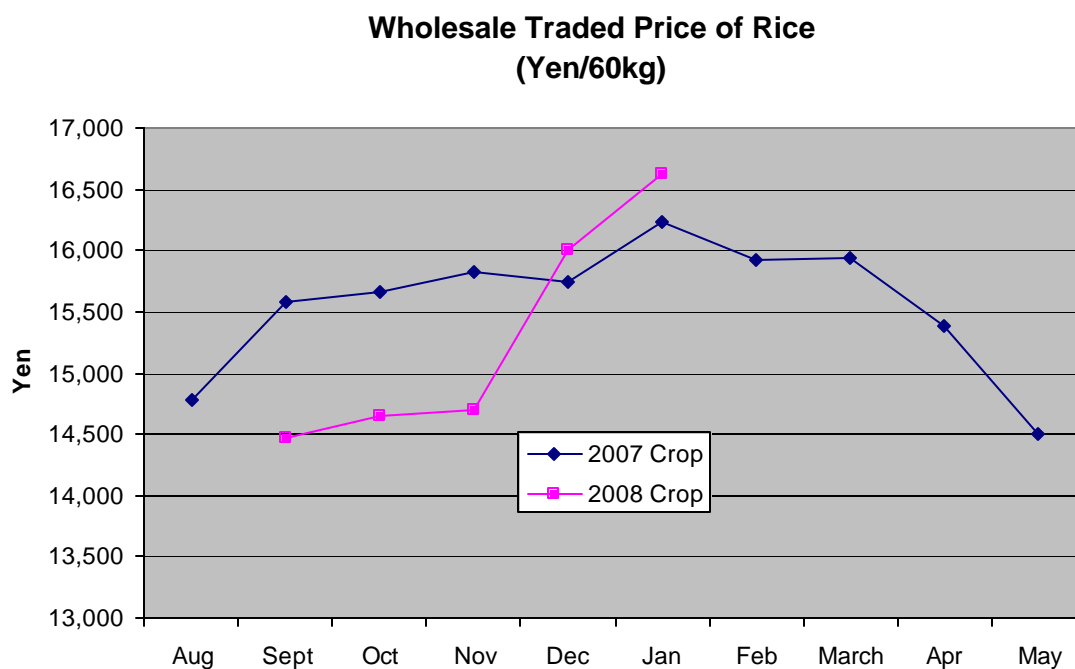


Table 7.

Retail Price of Rice in Tokyo Area (Yen/10 kg)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
5,017	5,059	4,934	4,745	4,788	4,983	5,527	4,750	4,681	4,576

Source: Ministry of Management, Home Affairs, Post and Telecommunications

The United States Maintains Near 50 Percent Share of Overall Imports but Falls Far Behind China in SBS Imports

To date, for the Japanese fiscal year (JFY) 2007 (April 2007–March 2008), the total U.S. market share remains at the same level as previous years. To date MAFF has completed four Simultaneous Buy and Sell (SBS) tenders and seven Ordinary Minimum Access (OMA) tenders. Although the SBS portion (100,000 MT) has been nearly filled, there remains about 140,000 MT left under the OMA portion for Japan's commitment to be filled. Therefore, it is expected that additional OMA tenders will be held by the end of March until the committed volume is reached (682,000 MT on milled rice basis).

Table 8.

Results of Japan's Minimum Access Rice Tenders (JFY 1995 - 2006) (Actual Tonnage)

	U.S.	Thailand	Australia	China	Others	Total
*JFY 2007						
SBS	21,704	1,434	0	73,456	226	96,820
Share	22.4%	1.5%	0.0%	75.9%	0.2%	100.0%
OMA	260,000	160,000	0	0	21,000	441,000
Share	59.0%	36.3%	0.0%	0.0%	4.8%	100.0%
Total	281,704	161,434	0	73,456	21,226	537,820
Share	52.4%	30.0%	0.0%	13.7%	3.9%	100.0%
JFY2006						
SBS	22,566	1,048	7,535	68,013	838	100,000
Share	22.6%	1.0%	7.5%	68.0%	0.8%	100.0%
OMA	296,316	158,050	39,000	0	85,050	578,416
Share	51.2%	27.3%	6.7%	0.0%	14.7%	100.0%
Total	318,882	159,098	46,535	68,013	85,888	678,416
Share	47.0%	23.5%	6.9%	10.0%	12.7%	100.0%
JFY2005						
SBS	17,894	1,784	4,084	75,684	554	100,000
Share	18.2%	1.1%	1.6%	78.8%	0.3%	100.0%
OMA	304,000	163,500	13,000	0	98,078	578,578
Share	52.2%	23.6%	13.7%	3.4%	7.1%	100.0%
Total	321,894	165,284	17,084	75,684	98,632	678,578
Share	47.4%	24.4%	2.5%	11.2%	14.5%	100.0%
JFY 2004						
SBS	23,413	1,211	4,658	63,877	829	93,988
Share	24.9%	1.3%	5.0%	68.0%	0.9%	100.0%
OMA	298,500	163,300	13,000	24,000	85,944	584,744
Share	51.0%	27.9%	2.2%	4.1%	14.7%	100.0%
Total	321,913	164,511	17,658	87,877	86,773	678,732
Share	47.4%	24.2%	2.6%	12.9%	12.8%	100.0%
JFY 2003						
SBS	18,216	1,145	1,570	78,803	266	100,000
Share	18.2%	1.1%	1.6%	78.8%	0.3%	100.0%
OMA	298,000	134,700	78,400	19,500	40,500	571,100
Share	52.2%	23.6%	13.7%	3.4%	7.1%	100.0%
Total	316,216	135,845	79,970	98,303	40,766	671,100
Share	47.1%	20.2%	11.9%	14.6%	6.1%	100.0%

JFY 2002						
SBS	20,122	1,327	4,077	24,247	294	50,067
Share	40.2%	2.7%	8.1%	48.4%	0.6%	100.0%
OMA	301,676	134,808	82,500	75,690	34,800	629,474
Share	47.9%	21.4%	13.1%	12.0%	5.5%	100.0%
Total	321,798	136,135	86,577	99,937	35,094	679,541
Share	47.4%	20.0%	12.7%	14.7%	5.2%	100.0%
JFY 2001						
SBS	25,173	421	8,529	65,702	175	100,000
Share	25.2%	0.4%	8.5%	65.7%	0.2%	100.0%
OMA	298,877	129,376	91,500	55,516	4,700	579,969
Share	51.5%	22.3%	15.8%	9.6%	0.8%	100.0%
Total	324,050	129,797	100,029	121,218	4,875	679,969
Share	47.7%	19.1%	14.7%	17.8%	0.7%	100.0%
JFY 2000						
SBS	46,273	4,960	14,269	53,264	1,234	120,000
Share	38.6%	4.1%	11.9%	44.4%	1.0%	100.0%
OMA	284,000	144,370	94,000	35,000	15,669	573,039
Share	49.6%	25.2%	16.4%	6.1%	2.7%	100.0%
Total	330,273	149,330	108,269	88,264	16,903	693,039
Share	47.7%	21.5%	15.6%	12.7%	2.4%	100.0%
JFY 1999						
SBS	36,826	3,753	14,587	62,611	2,223	120,000
Share	30.7%	3.1%	12.2%	52.2%	1.9%	100.0%
OMA	276,000	138,200	90,000	13,900	15,000	533,100
Share	51.8%	25.9%	16.9%	2.6%	2.8%	100.0%
Total	312,826	141,953	104,587	76,511	17,223	653,100
Share	47.9%	21.7%	16.0%	11.7%	2.6%	100.0%
JFY 1998						
SBS	36,498	5,297	14,538	61,965	1,702	120,000
Share	30.4%	4.4%	12.1%	51.6%	1.4%	100.0%
OMA	265,400	130,000	87,000	10,000	20,000	512,400
Share	51.8%	25.4%	17.0%	2.0%	3.9%	100.0%
Total	301,898	135,297	101,538	71,965	21,702	632,400
Share	47.7%	21.4%	16.1%	11.4%	3.4%	100.0%
JFY 1997						
SBS	34,657	911	3,159	13,882	2,532	55,141
Share	62.9%	1.7%	5.7%	25.2%	4.6%	100.0%
OMA	237,900	133,900	82,400	30,000	5,000	489,200
Share	48.6%	27.4%	16.8%	6.1%	1.0%	100.0%
Total	272,557	134,811	85,559	43,882	7,532	544,341
Share	50.1%	24.8%	15.7%	8.1%	1.4%	100.0%
JFY 1996						
SBS	14,134	360	1,173	5,113	1,220	22,000
Share	64.2%	1.6%	5.3%	23.2%	5.5%	100.0%
OMA	201,000	127,650	80,000	35,000	0	443,650
Share	45.3%	28.8%	18.0%	7.9%	0.0%	100.0%
Total	215,134	128,010	81,173	40,113	1,220	465,650
Share	46.2%	27.5%	17.4%	8.6%	0.3%	100.0%
JFY 1995						

SBS	5,715	246	1,935	2,390	408	10,694
Share	53.4%	2.3%	18.1%	22.3%	3.8%	100.0%
OMA	188,000	95,100	85,000	30,000	0	398,100
Share	47.2%	23.9%	21.4%	7.5%	0.0%	100.0%
Total	193,715	95,346	86,935	32,390	408	408,794
Share	47.4%	23.3%	21.3%	7.9%	0.1%	100.0%

Source: MAFF

*JFY 2007 figures are as of February 1, 2008.

Implementation of the Maximum Residue Levels (MRLs) Continues to Burden Rice Exporters

Japan's Ministry of Health, Labor and Welfare (MHLW) started to enforce the new MRL standards, the so-called "positive list" on May 29, 2006.

As the State Trading Enterprise (STE) for rice imports, MAFF demands three tests be implemented in addition to the MHLW's monitoring test, one of which is at the industry's expense. This puts a tremendous burden on the U.S. industry especially for SBS exports because the export unit volume is much smaller than OMA exports, resulting in exorbitant per ton testing charges. This adds to an already difficult situation in getting rice through the SBS system. The new MRL regime has made the SBS business, which is practically the only way for U.S. rice to reach Japanese consumers, even more difficult; further limiting market development efforts and undermining U.S. producers' commitment to producing Japan specific varieties of rice.

Trade for Processed Rice Products

The United States is one of the three largest exporters of rice flour preparations to Japan along with Thailand and China. The U.S. suppliers have long catered to the specific needs of Japanese end users and have developed a mutually beneficial stable business.

In June 2005, MAFF started to release stocks of imported rice into the rice flour sector in an effort to curb the "surge" of imports of rice flour preparations and to reduce the inflating stocks of imported rice (now estimated at roughly 1.5 MMT). Now that the program is in its third year and two full calendar years of import statistics are available, it is clear that this sector-specific release program is substantially affecting U.S. exports (down nearly 20 percent in 2007 from 2005). Post will continue monitoring the movements.

The U.S. share in the imports of rice crackers, pilaf and *sake* (rice wine) remains small due to high labor costs compared to those in countries like Thailand (the largest exporter to Japan of rice crackers), China (the largest exporter of pilaf) and the Republic of Korea (the largest exporter of *sake*).

Table 9.

Japanese Imports of Processed Rice Products (MT, except sake)

	CY 2005		CY 2006		CY 2007	
	Total	U.S.	Total	U.S.	Total	U.S.
Flour preparations	120,633	31,890	107,790	27,270	902,901	25,991
Rice Crackers	9,475	0	10,786	0	11,594	0
Pilaf	1,117	74	961	1	819	2

Sake (1,000 liters)	3,016	0	3,534	0	3,128	0
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Source: Ministry of Finance

Stocks

MAFF holds emergency stocks of rice, whose appropriate level is currently targeted at 1 million MT. However, this does not include the Minimum Access (MA) rice. MAFF's official supply and demand table does not include stocks of MA rice. As shown below, stocks of domestic rice have been reduced over the years, and since 2004 have been below the targeted level due to a poor crop in 2003. (The emergency set-aside of 340,000 MT will be added to the domestic stocks, which is not reflected in the table below.)

In contrast, stocks of MA rice have been piling up.

Table 10.

Japan's Rice Reserve (MT)

	Commercial	Government		Total
		Domestic	MA rice	
1995	370,000	1,180,000	0	1,550,000
1996	390,000	2,240,000	310,000	2,940,000
1997	850,000	2,670,000	390,000	3,910,000
1998	470,000	2,970,000	420,000	3,860,000
1999	220,000	2,330,000	440,000	2,990,000
2000	110,000	1,620,000	560,000	2,290,000
2001	370,000	1,760,000	750,000	2,880,000
2002	460,000	1,550,000	950,000	2,960,000
2003	130,000	1,310,000	1,270,000	2,710,000
2004	20,000	570,000	1,480,000	2,070,000
2005	0	710,000	1,700,000	2,410,000
2006	0	680,000	1,890,000	2,570,000
2007	0	770,000	1,520,000	2,290,000

Source: Food Department/MAFF

This is a major issue for GOJ since the storage cost has become exorbitant. The Board of Audit, Japan's equivalent of the GAO, reported in October 2006 that the inflating inventory of imported rice has become a financial burden and urged MAFF to reduce it. It is also a great concern for the United States because over 60 percent of the stocks are U.S. rice, some of which are a few years old. In order not to disrupt the supply and demand for domestic rice, MAFF does not release these stocks to the table rice sector (i.e. retail and foodservice markets). As described in the previous section, in an effort to reduce these MA stocks, without greatly disrupting the supply and demand for domestic rice, and simultaneously curbing imports of rice flour preparations, MAFF started releasing MA rice stocks to domestic rice flour manufacturers.

Furthermore, in July 2006, MAFF started releasing old MA rice stocks to the feed sector. MAFF releases about 25,000 MT per month. Table 24 in the CORN section of this report shows grain utilization in the feed sector. Approximately 426,000 MT of rice is being used for feed. Further, it has been reported that MAFF is considering supplying MA rice to ethanol plants. Post will continue closely monitoring this disturbing development where an increasing amount of high quality U.S. rice, kept in air-conditioned warehouses, is going into non-food sectors.

Minimum Access Commitment Continues into 2007

As a result of the Government of Japan's (GOJ) tariffication of rice in JFY 2000, the Minimum Access commitment was reduced to 7.2 percent of total domestic consumption from the non-tariffed rate of 8.0 percent. In terms of volume, 7.2 percent is equivalent to 682,000 MT (milled basis). This volume will remain in effect until renegotiated. Japan intends to position rice as a most sensitive item, therefore, excluding it from the across the board expansion of tariff rate quotas (TRQs) and tariff capping in the WTO Doha Round.

Table 11.

Japan's Market Access Obligations for Rice
(MT, Minimum Access as Percent of Domestic Rice Consumption)

	Without Tariffication		With Tariffication	
	Volume	Percent of Domestic Consumption	Volume	Percent of Domestic Consumption
JFY 2000 onward	758,000	8.0 percent	682,000	7.2 percent

Source: MAFF

Export of Rice under Food Aid

The GOJ sets aside about 200,000 MT of rice under food aid programs on an annual basis. This amount does not show up in the export statistics by the Ministry of Finance, which appears to record only exports of Japanese domestic rice (18,561 MT in the calendar year 2007 which includes a negligible amount of commercial exports). The discrepancy between the total food aid exports and the amount recorded in the official export statistics is considered to be rice imported under the OMA regime and diverted for food aid exports.

Marketing

The two fundamental constraints to marketing U.S. rice in Japan under the current import and stock management regime are: 1) the difficulty of securing a steady supply at a stable price through the heavily controlled SBS system; and 2) the political mandate to not disrupt domestic rice markets, which effectively prohibits the release of MA rice stocks to the table rice market (retail and foodservice sectors).

Despite a highly restrictive marketing environment, the USA Rice Federation (USARF) continues to conduct a creative marketing program. In 2006, the USARF embarked on successful food service and Home Meal Replacement promotions by holding a U.S. rice *sushi* recipe contest, entitled "California-Style Sushi Master Contest," targeting professional chefs and recipe creators. The event captured a tremendous amount of media exposure. Subsequent to this success, in December 2006, USARF launched the first-time-ever Cal Rose promotion in Japan. The promotion strategically positions medium grain U.S. rice as a light tasting food ingredient, as opposed to "heavy" image of steamed Japanese rice eaten as it is in a bowl. Several creative recipes like Cal Rose risotto were served at Japan's leading café restaurant chain and the month long campaign proved to be the most successful menu promotion the chain has ever experienced. In 2007, a major family dining restaurant chain started serving Cal Rose dishes in Tokyo and in 2008 will be expanding the promotion nationwide.

WHEAT

Production in 2007 Recovers and Hits 900,000 MT Mark

The total planted area for wheat in 2006 increased 2.2 percent from 213,500 hectares in 2005 to 218,300 hectares. However, due to a yield 1.3 percent below the average year, the overall production decreased by 4.4 percent from 874,700 MT in 2005 to 836,500 MT in 2006. Contrary to the situation in 2006, in 2007, the total planted area declined by 4 percent but production volume increased by 9 percent to 909,700 MT. This was due to recovered yields nationwide, particularly in the major producing region of Hokkaido, blessed by good weather conditions throughout the growing season.

Table 12.

Japan's Wheat Production

	Planted Area (hectares)	Production (MT)	Yield (MT/ha)
2003	212,200	855,200	4.03
2004	212,600	859,900	4.04
2005	213,500	877,400	4.11
2006	218,300	836,500	3.83
2007	209,700	909,700	4.34

Source: MAFF

New Subsidy Scheme Launched

In April 2007, MAFF began implementing a new farm subsidy program that departs from the past commodity-specific support given to practically all farmers and instead for direct payments targeting larger scale farmers. Wheat (as well as barley) is one of the most important commodities targeted in the new scheme, the contents of which are described in the APPENDIX.

While MAFF's goal is to encourage the upward trend in wheat production through the use of this direct payment, in the first year, the new scheme did not lead to increased planting of wheat. An expansion of domestic wheat production will ultimately depend on end-users' evaluation and acceptance of the value (i.e. balance between quality and price) of domestic wheat, which Japanese flour millers currently consider much inferior to imported wheat.

Wheat Consumption Stays Flat

Historically, wheat consumption had been increasing gradually as consumers shifted from rice to processed wheat products such as bread and pasta. However, consumption has been flat in the last two decades. In 2003/04, wheat consumption increased slightly as the overall downward trend was temporarily offset due to the higher price of rice caused by a short crop. Consumption in 2006/07 went back to the level of 1985. There is no sign of reversing this trend. In 2008, consumption is expected to decline as prices of wheat based products are expected to increase as a result of increases in wheat prices released from MAFF to Japanese flour millers (details in the following Wheat Resale Price section). Considering the growing size of the elderly population, who tend to eat more traditional foods, and increasing imports of semi-finished or finished wheat-based products such as frozen breads and doughs, consumption is expected to decline slowly but steadily.

Table 13.

***Per Capita Consumption of Wheat in Japan
(Kilograms)***

1985	1999	2000	2001	2002	2003	2004	2005	2006	2007*
31.7	32.4	32.6	32.1	31.9	32.6	32.3	31.7	31.8	31.5

Source: MAFF

* Ag Office estimate

Utilization Patterns

In 2006 production of three major wheat based products (flour, bread and noodles) declined. On the other hand, production of biscuits and premixes increased slightly. In the long term, domestic production of these selected wheat products is estimated to be flat or to decline slightly as Japan's demographics change. Due to increases in MAFF's wheat resale prices as explained below, manufacturers of wheat products are raising prices, which Post expects will lead to a further drop in consumption in 2008.

Table 14.

***Japanese Production of Selected Wheat Products
(1,000 MT)***

	2003	2004	2005	2006	2007*
Wheat Flour	4,662	4,667	4,623	4,599	4,580
Bread	1,247	1,243	1,232	1,218	1,205
Noodles	1,425	1,414	1,368	1,324	1,303
Biscuit	219	214	213	218	222
Premix	352	365	357	361	360

* Ag Office Estimate

Source: MAFF

Wheat Resale Price Significantly Raised

MAFF controls both producer and resale prices of both domestic and imported wheat. MAFF buys imported wheat at international prices and sells it to domestic flour millers at higher prices. As shown in Table 15 below, the ratio in recent years has been consistent around 2 to 1, which means MAFF sells imported wheat at twice the purchase price. On the other hand, MAFF buys domestic wheat at a high price and sells it to domestic flour millers at a significantly lower price, lower than imported wheat so that the lower quality domestic wheat will be accepted. Revenues from transactions for imported wheat are used to help cover the cost difference between the purchase and resale of domestic wheat. This is referred to as the "Cost Pool System".

Until last year the resale price at which Japanese millers bought wheat from MAFF was set once a year for each brand/country and fixed at that price throughout the year. MAFF's purchase price (CIF price), however, has always fluctuated with international prices. Therefore, MAFF took the risk for changes in currency exchange rates and increases in import prices. This system was established in 1951 to ensure stable consumer prices as mandated under the Food Law.

Over the past 15 years, the purchase price has been relatively stable from year to year while the domestic flour price has been declining. All of these factors plus the budgetary

constraints facing MAFF led them to introduce a new system. The new system which started this year allows MAFF to revise the resale price two or three times a year, based on fluctuations in the market, and thus better reflect the market price situation (FOB price) in each country on the resale price. The initial resale prices set for April - September 2007 (Table 16), were based on an average of the past half year or full year FOB prices. The "mark-up" ratio (coefficient) on an annual average was meant to stay at the range between 1.8 to 1 and 2.1 to 1 as before. However, soaring international prices of wheat quickly worsened MAFF's balance sheet. MAFF is currently running in the red as shown in Table 15 below. It is reported that MAFF will raise the resale price again in April 2008 by 30 percent. This will have a significantly negative impact on Japan's flour milling business because flour millers cannot easily raise the wholesale and retail prices of flour and flour based products given the expected resistance by food manufacturers, foodservice operators and retailers as a result of the stagnant economy.

Table 15.

GOJ Purchase and Resale Price of U.S. Wheat
(Yen per MT)

	Average CIF Price* (a)	Resale Price** (b)	(b)/(a)
2003	22,855	45,790	2.0
2004	22,923	45,560	2.0
2005	21,521	45,350	2.1
2006	25,377	44,970	1.8
Apr-07	35,537	42,730	1.2
May-07	35,053		1.2
Jun-07	37,130		1.2
Jul-07	39,412		1.1
Aug-07	40,429		1.1
Sep-07	50,414		0.8
Oct-07	59,901	46,990	0.8
Nov-07	57,473		0.8
Dec-07	65,129		0.7

*US Wheat (HS Code: 100190019)

*US Western White II

Source: MAFF and Ministry of Finance

The price includes 5% consumption tax.

Table 16.

GOJ Resale Price for April-September 2007
Yen per MT

	a	b	c		
Brand	2006	Apr - Sept 2007	Oct 07- March 08	a/b %	b/c %
U.S. Western White (WW)	44,970	42,730	46,990	95.0%	110.0%
Australia Standard White (ASW)	46,350	48,660	53,530	105.0%	110.0%
U.S. Hard Red Winter (HRW)	45,920	47,440	52,170	103.3%	110.0%
Canada Western Red Spring #1 (1CW)	51,140	51,140	56,250	100.0%	110.0%
U.S. Dark Northern Spring (DNS)	49,270	49,270	54,190	100.0%	110.0%
Average of above 5 brands	47,820	48,430	53,270	101.3%	110.0%

Source: MAFF

Wheat Imports Show Continued Small Decline in 2007

Total imports of wheat in calendar year (CY) 2007 declined 1.2 percent to 5,275,108 MT, reflecting the stagnant consumption of wheat-based products. Over the medium term, imports of wheat are forecast to decline slowly but steadily as Japan's demographics change. As U.S. wheat replaced part of drought-stricken Australian wheat, the U.S. share of total imports of wheat in 2007 was raised to about 60 percent from the previous year's level of 55-57 percent.

Table 17.

Japanese Wheat Imports by Source (MT)

Year	U.S.	Share	Canada	Australia	TOTAL
CY 2005	3,102,469	56.7%	1,243,055	1,107,053	5,472,347
CY 2006	3,002,097	56.2%	1,193,154	1,133,540	5,337,110
CY 2007	3,166,974	60.0%	1,136,261	948,251	5,275,108

Source: Ministry of Finance

Table 18.

Japanese Imports of Processed Wheat Products (MT)

	CY 2005		CY 2006		CY 2007	
	Total	US Share	Total	US Share	Total	US Share
Flour preparations	139,802	6.2%	138,510	6.5%	117,021	7.5%
Pasta (excl. stuffed)	109,603	20.5%	109,791	22.5%	104,411	22.8%
Biscuits	23,937	8.5%	24,481	6.1%	23,105	6.3%
Bread	9,500	37.9%	10,058	40.0%	8,065	32.6%

Source: Ministry of Finance

MAFF allows flour millers to import wheat outside of MAFF's control as long as they export an equivalent amount of wheat flour. This so-called "free wheat" is imported at world prices (less than half of MAFF's resale price) and is thus very profitable. This system also provides millers with an export market for their lower quality flour, which otherwise would have little value in the domestic market.

Table 19.

Japanese Exports of Wheat Flour by Destination (MT)

Destination	CY 2005	CY 2006	CY 2007
Hong Kong	186,806	182,077	166,439
Vietnam	35,805	30,877	23,460
Singapore	28,320	37,596	33,255
Thailand	15,741	15,826	13,396
United States	705	899	1,017
Other	22,533	22,754	17,808
Total	289,910	290,029	255,375

Source: Ministry of Finance

Stocks

Japan has held emergency stocks of wheat at a level equivalent to 2.6 months' worth of demand. Due to the shortened time necessary to obtain alternative supplies in case of an emergency, the stocks were reduced to 2.3 months' worth as of the end of JFY 2005, and down further to 1.8 months' worth in 2006. Although the actual stock figures are not disclosed, 1.8 months' worth of stocks translates to around 900,000 metric tons.

Feed Wheat Imports through SBS System

In 1999, MAFF introduced the Simultaneous Buy and Sell (SBS) system for imported wheat and barley for feed use. During JFY 2007, MAFF conducted six SBS tenders, through which 88,375 MT of imported wheat was contracted. Information on the country of origin of successful tender contracts is not disclosed, however, according to trade sources, in 2002 and 2003 Japan purchased a small amount of Ukrainian wheat but discontinued that in 2004. Although very small amounts of imports from China remain, Post does not see a significant advance by these low cost producers in the foreseeable future.

Table 20.

SBS Imports of Feed Wheat and Barley (MT)

	Wheat	Barley
1st tender	11,995	170,310
2nd	12,790	193,170
3rd	16,170	204,180
4th	7,405	116,400
5th	19,460	183,990
6th	20,555	249,785
Total	88,375	1,117,835

Source: MAFF

MAFF Introduces New SBS System for Food Quality Wheat and Barley

MAFF started a new Simultaneous-Buy-Sell (SBS) system for food quality wheat and barley in Japan's new fiscal year beginning April 2007. The idea behind the SBS system is to allow for greater flexibility of imports and transparency in a portion of food quality wheat. However, MAFF still remains a "middle man" in the transaction.

Plans for Wheat SBS Tenders:

There are two categories of SBS wheat imports. First, MAFF planned to transfer state purchases of roughly 240,000 to 250,000 MT of Australian Prime Hard and roughly 240,000 to 250,000 MT of Durum to the SBS system. (Note: These quantities are tentative.) Traditionally, MAFF has bought durum only from Canada but this system will theoretically open up the system to U.S. durum. As for Prime Hard, Australia is the only supplier. Given the drop in Australia's crop, MAFF has conducted only one tender for Australian wheat so far.

The second category includes wheat varieties that are not imported under the state trading regime (See below.) The idea is that this will provide a vehicle for importing new varieties –

including U.S. durum, which can be imported under Category I or II. Currently, French wheat for baguettes is the main import that falls under this category.

Category I: Prime Hard and Durum

Category II: Any variety/brand except:
 U.S. Western White (WW)
 U.S. Hard Red Winter (HRW)
 U.S. Dark Northern Spring (DNS)
 Australia Standard White (ASW)
 Canada Western Red Spring (CWRS)

Due to the extraordinary wheat trade situation caused by sharp price hikes in the international market, however, the first year of SBS imports did not go as laid out in the original plan above. The buyers/users were hesitant to take risks against price fluctuations in the volatile market situation.

Table 21.

SBS Imports of Food Wheat

Tender (Date)	Category I			Category II		
	MT	Type	Country	MT	Type	Country
1st 26-Apr-07						
2nd 31-May-07				1,524	NA	France
3rd 23-Aug-07	30,000	Durum	Canada			
4th 27-Sep-07						
5th 25-Oct-07	21,000	NA	Canada			
6th 29-Nov-07	7,500	NA	Canada	1,570 5,100 117	NA NA NA	France Australia USA
7th 12-Dec-07	3,500	NA	Canada			
8th 31-Jan-08	35,500	NA	Canada			
Total Volume	97,500			8,311		

Source: MAFF (As of January 31, 2008)

Marketing

The U.S. Wheat Associates (USWA) has been a steady and effective liaison between the Japanese trade and U.S. industry, conducting a variety of trade serving activities to maintain and enhance relationships between U.S. industry and Japanese buyers. USWA has been the conduit in many of Post's activities with MAFF and the Japanese trade. It has also been

instrumental in educating the U.S. Industry of changes in Japan including the introduction of the above SBS system and the new maximum residue requirements.

CORN

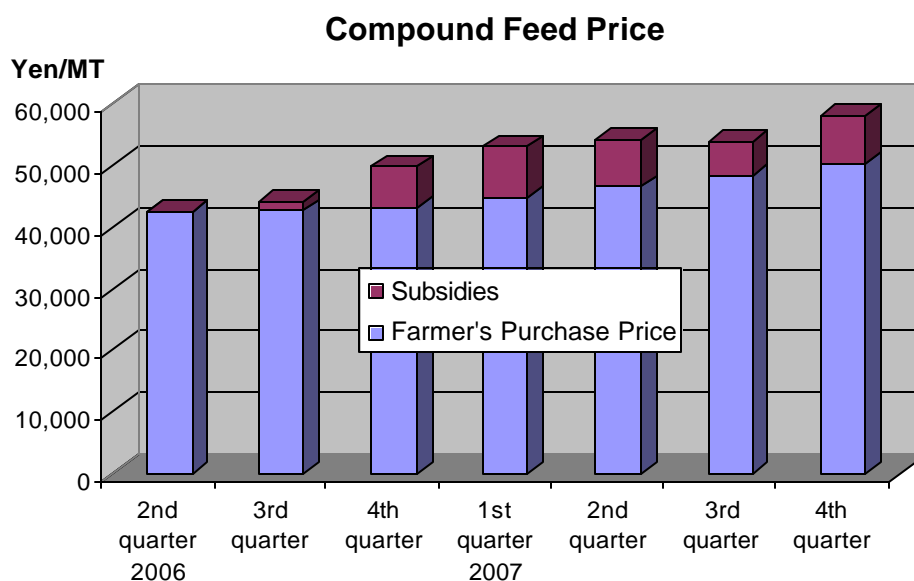
Production

Corn production is negligible in Japan.

Overall Demand Stable While High Feed Price Will Severely Hurt Japanese Livestock Producers

One of the biggest current concerns of MAFF is soaring feed grain prices, particularly in corn, because corn is the largest ingredient in compound feed and Japan's corn supply relies solely on imports. A stable corn supply, in terms of both quantity and price, is the lifeline for Japan's livestock production.

Due to soaring feed grain prices the price of compound feed has increased 36 percent since late 2006. Japan has a feed price stabilization program, where a combination of a MAFF subsidy and an industry fund help absorb sudden surges in the compound feed price. However, the industry fund has already been exhausted and MAFF's budget is not abundant either. It is expected that MAFF will continue subsidizing to curb price increases during the probationary period but if the high price situation continues throughout 2008, MAFF may not be able to pick up the slack much further. As it is, the compound feed price, after subsidies, has been raised by 18 percent since the second quarter of 2006. This is a tremendous burden on Japan's livestock industry.



As shown in the table below, except for dairy cattle, the population of livestock animals increased slightly in 2007, most significantly in the poultry population as it recovered from the impact of avian influenza. However, as mentioned in the previous section, 2008 growth projections are grim.

Table 22.

Japanese Livestock Population
(1,000 heads)

	2002	2003	2004	2005	2006	2007	%07/02
Dairy cows	1,726	1,719	1,690	1,655	1,636	1,592	92.2%
Beef cattle	2,838	2,804	2,788	2,747	2,755	2,806	98.9%
Swine	9,612	9,725	9,724	9,750*	9,620	9,759	101.5%
Layers	137,718	137,272	137,216	136,000*	136,894	142,765	103.7%
Broilers	105,658	103,730	104,950	102,520	103,687	105,287	99.6%

Source: MAFF (as of February each year)

* Ag Office Estimate

In the long term, the downward trend in the livestock population appears irreversible and feed demand in Japan is expected to decline slowly but surely. On the other hand, a robust demand for food corn is expected to continue, primarily due to a strong beverage demand for corn sweeteners. The future of corn demand in Japan relies heavily on developing and enhancing demand in the non-feed sector.

Table 23.

Imports of Meat by Origin
(1,000 MT)

	CY 2005	CY 2006	CY 2007
Beef, fresh/chilled (HS Code: 0201)			
United States	0	5	18
Share	0.0%	2.3%	8.2%
Australia	223	208	188
Total	230	223	216
Beef, frozen (HS Code: 0202)			
United States	0	2	16
Share	0.0%	0.9%	6.3%
Australia	188	197	206
Total	230	237	258
Pork, fresh/chilled/frozen (HS Code: 0203)			
United States	288	252	271
Share	33.0%	34.8%	35.6%
Denmark	231	168	161
Canada	195	152	166
Total	873	725	760
Poultry, fresh/chilled/frozen (HS Code: 0207)			
United States	30	28	24
Share	7.0%	7.4%	6.6%
China	1	0	0
Thailand	0	0	0
Brazil	380	338	324
Total	429	380	360

Source: Ministry of Finance

Utilization Patterns

Of the total demand for corn in Japan (approximately 16.6 million MT), roughly 70 percent comes from the feed sector, 22 percent from starch manufacturers, and 8 percent from other food-use sectors including manufacturers of corn grits (used as a fermentation ingredient in liquors), cornflakes and confections.

Corn is the major ingredient used in compound and mixed feed. The ingredient ratio is adjusted from year-to-year, depending on the prices of various grains, but the corn ratio has been fairly constant at 48–50 percent in recent years. Of the total demand for feed corn (roughly 12.0 million MT), about 44–45 percent (5.3 million MT) comes from the poultry sector.

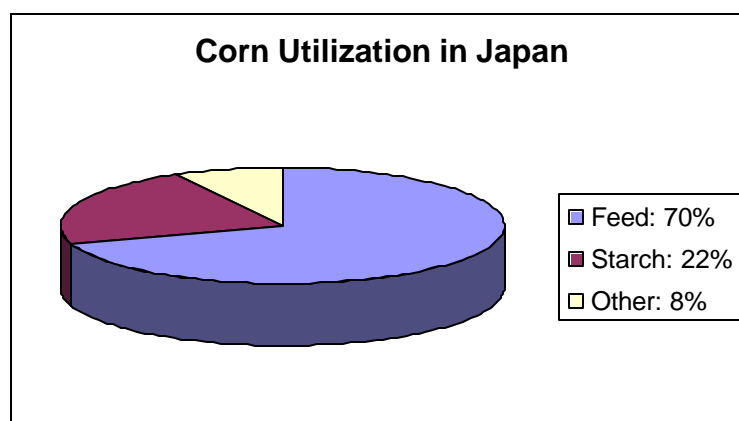


Table 24.

Feed Utilization by Ingredients in 2006

	Corn	Sorghum	Wheat	Barley	Rice	Wheat Flour	Rye	Oats	Other Grains	Grain Total	Other Ingredients	Total
Layer Feed												
MT	3,641,099	98,101	786	3	119,836	1,503	2	0	2,511	3,863,841	2,698,020	6,561,861
%	55.5%	1.5%	0.0%	0.0%	1.8%	0.0%	0.0%	0.0%	0.0%	58.9%	41.1%	100.0%
Broiler Feed												
MT	1,640,597	610,539	3,716	1,689	144,458	4,591	92	0	1,055	2,406,737	1,370,620	3,777,357
%	43.4%	16.2%	0.1%	0.0%	3.8%	0.1%	0.0%	0.0%	0.0%	63.7%	36.3%	100.0%
Poultry Total												
MT	5,281,696	708,640	4,502	1,692	264,294	6,094	94	0	3,566	6,270,578	4,068,640	10,339,218
%	51.1%	6.9%	0.0%	0.0%	2.6%	0.1%	0.0%	0.0%	0.0%	60.6%	39.4%	100.0%
Dairy Cattle												
MT	1,348,932	27,950	14,914	59,439	36,681	23,589	55,959	6,089	12,655	1,586,208	1,592,898	3,179,106
%	42.4%	0.9%	0.5%	1.9%	1.2%	0.7%	1.8%	0.2%	0.4%	49.9%	50.1%	100.0%
Beef Cattle												
MT	1,702,036	82,669	37,478	692,768	12,928	38,640	41,542	2,141	11,896	2,622,098	1,706,692	4,328,790
%	39.3%	1.9%	0.9%	16.0%	0.3%	0.9%	1.0%	0.0%	0.3%	60.6%	39.4%	100.0%
Cattle Feed Total												

MT	3,050,968	110,619	52,392	752,207	49,609	62,229	97,501	8,230	24,551	4,208,306	3,299,590	7,507,896
%	40.6%	1.5%	0.7%	10.0%	0.7%	0.8%	1.3%	0.1%	0.3%	56.1%	43.9%	100.0%
Swine Feed												
MT	3,289,494	454,005	42,621	61,648	111,486	58,233	117,591	19	77,021	4,212,118	1,751,800	5,963,918
%	55.2%	7.6%	0.7%	1.0%	1.9%	1.0%	2.0%	0.0%	1.3%	70.6%	29.4%	100.0%
Feed, other												
MT	39,381	3,602	229	1,630	445	1,192	1,073	891	198	48,641	41,320	89,961
%	43.8%	4.0%	0.3%	1.8%	0.5%	1.3%	1.2%	1.0%	0.2%	54.1%	45.9%	100.0%
Compound Feed Total												
MT	11,661,539	1,276,866	99,744	817,177	425,834	127,748	216,259	9,140	105,336	14,739,643	9,161,350	23,900,993
%	48.8%	5.3%	0.4%	3.4%	1.8%	0.5%	0.9%	0.0%	0.4%	61.7%	38.3%	100.0%
Mixed Feed												
MT	355,791	3,572	3,896	9,505	108	1,464	2,995	1,526	10,808	389,665	129,924	519,589
%	68.5%	0.7%	0.7%	1.8%	0.0%	0.3%	0.6%	0.3%	2.1%	75.0%	25.0%	100.0%
Feed Total												
MT	12,017,330	1,280,438	103,640	826,682	425,942	129,212	219,254	10,666	116,144	15,129,308	9,291,274	24,420,582
%	49.2%	5.2%	0.4%	3.4%	1.7%	0.5%	0.9%	0.0%	0.5%	62.0%	38.0%	100.0%

Source: Feed Supply Stabilization Organization

Table 25.

**Japanese Compound and Mixed Feed Production by Type of Animal
(1,000 MT)**

	Compound Feed				Mixed Feed	Grand-Total
	Poultry	Swine	Cattle	Subtotal*		
JFY 2003	10,491	6,059	7,329	23,968	634	24,602
JFY 2004	10,067	5,919	7,302	23,370	547	23,916
JFY 2005	10,216	5,872	7,376	23,553	556	24,109
JFY 2006	10,303	5,964	7,504	23,863	517	24,381
JFY 2007*	10,177	5,787	7,450	23,504	480	23,984

** Ag Office preliminary estimates

Source: MAFF

Prices

The CIF price of U.S. corn jumped over 50 percent in 2007, reflecting both soaring farm gate prices and higher freight rates. Surges in U.S. corn prices directly translate to higher feed prices in Japan as explained in the previous sections. Japan's compound feed price for the current quarter (January-March 2008) is reported at 58,100 yen/MT, an increase of over 36 percent since September 2006.

Table 26.

**Average CIF Price of Corn for Feed by Origin
(\$US per MT)**

	CY 2005	CY 2006	CY 2007	%07/06
United States	151.3	149.4	227.1	152.0%
Argentina	145.5	151.4	245.8	162.4%

China	152.7	165.8	218.3	131.7%
Brazil	NA	NA	214.2	NA

Source: Ministry of Finance

Trade

Although the quick trade statistics report issued by the Ministry of Finance (MOF) shows that total feed corn imports in 2007 were 10,751,772 MT, Post estimates that they were actually higher by around 1 million MT. Food corn imports, on the other hand, should be lowered by 1 million MT to 4.5 MT. Historically, MOF has often revised its corn import statistics later in the year. Since China and Argentina have put in place export taxes and export restrictions on corn, there currently does not appear to be any significant threat to the United States' 93 percent market share.

The general trend in recent years is that increases in food corn imports (i.e. non-biotech corn) have been compensating for declines in feed corn imports. The driving force in the food corn demand comes from the beverage sector, particularly for high fructose corn syrup (HFCS) used in low alcoholic drinks like *happoshu* (light beer) and other alcoholic beverages, in addition to a continued strong demand for soft drinks. Diligent efforts by the U.S. industry to educate Japanese users about its rigorous Identity Preserved (IP) handling program have successfully raised their confidence in U.S. food corn. As premiums for IP "non-GMO" food use corn have increased – by some reports premiums are as much as \$1.50 per bushel – some Japanese users are reportedly considering buying non-IP corn. If so, this could be the first step toward a more open policy on the part of food and beverage manufacturers to use biotech products.

While the StarLink issue may be diminishing, detection of aflatoxin in U.S. food corn has caused a notable disruption to trade since it was first detected on December 21, 2005. The tolerance level is set at (10 ppb) for aflatoxin B1. Although the detection rate in the 2006 and 2007 crops has been on a downturn, Post continues to coordinate closely with U.S. industry and to communicate with the Japanese Government and trade organizations in order to address their concerns, including consistency in testing methods in Japan and the United States.

Table 27.

Imports of Corn by Origin (1,000 MT)

	CY 2005	CY 2006	CY 2007
Corn for feed			
United States	11,701	12,043	9,988
Share	94.2%	97.1%	92.9%
Argentina	55	75	199
China	649	279	557
Brazil	0	0	6
Others	13	0	1
Total	12,418	12,397	10,752
Corn for manufacturing			
United States	3,977	4,297	5,569
Share	93.9%	95.8%	94.7%

Argentina	0	5	176
Australia	2	1	1
China	142	171	92
South Africa	101	0	0
Brazil	0	0	33
Others	15	10	10
Total	4,237	4,485	5,880
Total corn			
United States	15,679	16,341	15,557
Share	94.1%	96.8%	93.5%
Total	16,654	16,881	16,632

Source: Ministry of Finance

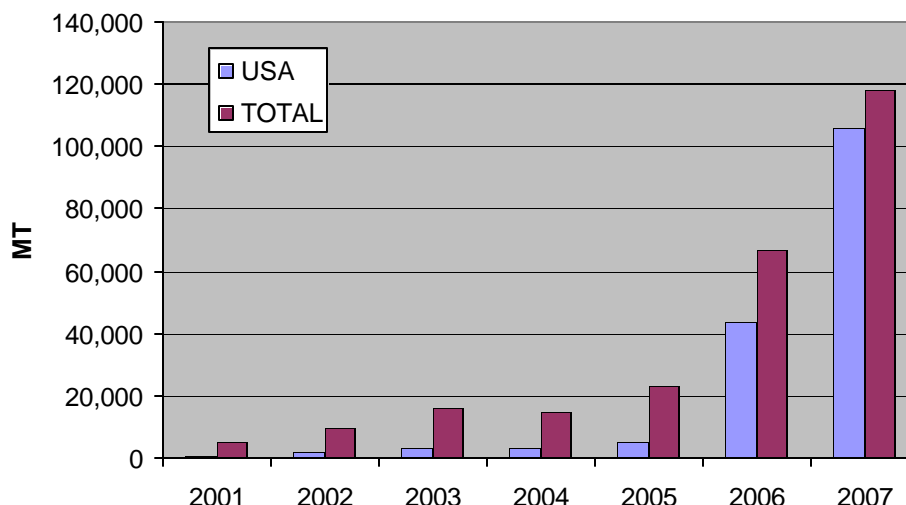
Stocks

Japan holds emergency stocks of essential feed grains, i.e. corn, sorghum, and barley. For over a decade until 2003, the stock level was set at approximately 630,000-670,000 MT, 130,000-170,000 MT and 390,000-400,000 MT respectively for the total of three grains fixed at 1,200,000 MT. In the scheme of regulatory reforms and downsizing of government expenditures, the stock size was reduced to 1,000,000 MT in 2003 and 950,000 MT in 2004. It has been maintained at a similar level since 2005. The breakdown for 2007 is 536,000 MT for corn, 64,000 MT for sorghum and 350,000 MT for barley. However, the recent global volatility in the grain trade has led to a call by some in the Japanese government and in the media to raise in the stock levels. MAFF instructs the private sector to also hold a similar level of stocks.

DDGS Imports on the Rise

One of the positive side effects of the ethanol boom in the United States is the increasing availability of a high value co-product, Distiller's Dried Grains with Solubles (DDGS). As a result of aggressive educational activities led by the U.S. Grains Council, Japan's imports of DDGS from the United States have been increasing remarkably and surpassed the 100,000 MT mark in 2007.

DDGS Imports (2001-07)



Marketing

With traditional markets for coarse grains expected to decline as Japan's domestic livestock production contracts, the U.S. Grains Council (USGC) continues to explore markets for "new use" products featuring Value Enhanced Grains (VEG) such as high oil corn. It held its annual VEG Conference featuring experts from the U.S. in February 2006 and 2007 in Tokyo. In September 2007, USGC sponsored a trade mission sending potential Japanese users to the United States. As mentioned earlier, USGC has been aggressively promoting DDGS, working with potential users and importers of DDGS in the feed and livestock industry in Japan. In this pursuit, USGC held a DDGS workshop in Tokyo in May 2007 which generated further solid interest in this new-to-the-market feed ingredient.

As the U.S. barley price took a sharp hike in 2007, Japanese users started looking for a new source of supply outside of the traditional exporting countries. USGC organized a Japanese buyer mission to the United States in order to reassure the Japanese users of the U.S. commitment to supplying the Japanese market.

Another important issue since 2006 in agricultural trade has been Japan's introduction/implementation of Maximum Residue Limits (MRLs or "positive list"). In cooperation with the U.S. Wheat Associates, USGC held an Agricultural Chemical Management Conference in Tokyo and Osaka in April 2006, and it is playing an indispensable liaison role between the Japanese trade and U.S. exporters/producers.

SORGHUM

Production

Like corn, production of sorghum is negligible in Japan.

Consumption

Sorghum being a substitute for corn, its utilization rate in the production of compound and mixed feeds fluctuates depending on its relative price to corn and other ingredients. In the last few years, the ratio has been declining due to an increase in its relative price. In JFY 2006, the most recent year with confirmed statistics, the sorghum utilization ratio went down to 5.2 percent from 7.6 percent in 2001.

Prices

CIF prices for sorghum stayed flat in 2005 and 2006, but took a sharp rise in 2007, similar to corn.

Table 28.

Average CIF Price of Sorghum for Feed by Origin
(\$US per MT)

	CY 2005	CY 2006	CY 2007	%07/06
United States	155.4	155.7	231.8	148.9%
Argentina	122.5	136.3	226.4	166.1%
Australia	173.0	150.2	NA	NA
China	NA	NA	222.9	NA

Source: Ministry of Finance

Table 29.

Comparative CIF Price; US Sorghum versus Corn
(\$US per MT)

	CY 2005	CY 2006	CY 2007
Sorghum	155.4	155.7	231.8
Corn	151.3	149.4	227.1
Sorg/Corn	102.7%	104.2%	102.1%

Source: Ministry of Finance

Trade

The U.S. is the largest supplier of sorghum to Japan. Since sorghum is mainly a substitute for corn, potential growth in Japan's sorghum imports largely depends on its relative price to corn. In 2007 its relative price improved slightly, but not enough to reverse the downward trend in demand for sorghum in feed production. As the U.S. sorghum price soared, Argentina and China have advanced as exporters to Japan, lowering the U.S. share from the 80 percent level in the last few years to below-60 percent in 2007.

As in the case of corn, the quick trade statistics report issued by the Ministry of Finance (MOF) tends to show total feed sorghum imports lower and food sorghum imports higher than the actual situation. Post estimates that at least 100,000 MT should be transferred from food sorghum to feed sorghum imports for 2007. Imports are classified as being either for feed or food, however, despite this technicality, much of the sorghum imported under the

food HS code must eventually end up in the feed sector, considering that the total demand for sorghum in the feed sector is approximately 1.3 million MT. (Refer to Table 24.)

Table 30.

Imports of Sorghum by Origin
(1,000 MT)

	CY 2005	CY 2006	CY 2007
Sorghum for feed			
United States	1125	971	531
Share	89.2%	82.1%	59.1%
Argentina	52	134	239
Australia	85	77	0
China	0	0	128
Total	1,261	1,182	899
Sorghum, others			
United States	93	135	173
Share	68.4%	81.3%	
Argentina	6	18	144
Australia	37	12	0
China	0	1	15
Others	0	0	0
Total	136	166	333
Total sorghum			
United States	1,217	1,106	704
Share	87.1%	82.0%	57.1%
Total	1,397	1,348	1,232

Source: Ministry of Finance

Stocks

As written in the previous CORN section, Japan holds emergency stocks of essential feed grains, i.e. corn, sorghum, and barley. The stocks of sorghum had been kept at 130,000-170,000 MT over a decade until 2003. Following the policy of reducing the overall feed grain stocks, sorghum stocks were reduced to 75,000 MT in 2003, to 66,000 MT in 2004, 65,000 MT in 2005 and 64,000 MT since.

Marketing

The U.S. Grains Council (USGC) has been conducting a trade education program to promote sorghum, particularly for food use, in Japan. In this effort it organized a reverse trade mission in April/May 2006 for Japanese food manufacturers to visit the U.S. to learn on-site about Identity Preserved (IP) handling of corn and explore the possibilities of using corn and sorghum in snack and bakery products. Product trials progressed in 2007, but were set back by a sharp price increase.

BARLEY

Production

According to Japan's Ministry of Agriculture, Forestry and Fisheries' (MAFF) survey for the 2007 barley crop, production increased by 12.2 percent owing to favorable weather conditions resulting in increased yield over 2006. Since about 90 percent of the total barley production area is on converted rice paddy land, production of barley is strongly affected by the rice policy and its reform. Therefore, the fact that the production area did not increase indicates that the new policy is not encouraging rice farmers to expand barley production. As described in the WHEAT section, Post is attentively monitoring the impact of the new direct payment program that targets wheat as well as barley beginning in the new fiscal year in April. By design, it should encourage larger scale permanent production of barley, not merely as an alternative crop to rice. (Please refer to the APPENDIX of this report.)

Table 31.

Crop Area and Production of Barley in Japan

	Crop Area (hectares)	Production (1,000 MT)
2003	63,600	198,500
2004	59,860	195,600
2005	54,840	184,500
2006	53,820	174,200
2007	54,220	195,400

Source: MAFF

Consumption

In Japan, over 80 percent of the total domestic consumption of barley is used for compound and mixed feed production for the cattle sector (beef and dairy). Barley is particularly important in feeding beef cattle because it produces high quality beef with the white marbling that Japanese consumers favor. Annually, over 800,000 MT of barley is consumed in the feed sector. The largest non-feed uses are for the production of *shochu*, a traditionally distilled liquor, and beer. Other uses include *miso* (soybean paste) and barley tea. Consumption of barley has been constant at around 1.65 million MT and there is no indication that it will show a significant increase in the near future. On the contrary some decline is expected as Japan's cattle population shrinks.

Prices

After reaching record high levels in 1996, the average CIF price of barley declined until 1999, rebounded in 2000 and has been hovering at high levels since. The U.S. CIF price increased by almost 50 percent in 2007 over 2006.

Table 32.

**Average CIF Prices of Barley for Feed by Origin
(\$US per MT)**

	CY 2005	CY 2006	CY 2007	%07/06
United States	167.1	194.8	291.9	149.8%
Canada	163.3	173.4	273.8	157.9%
Australia	179.9	171.5	279.5	163.0%
China	NA	NA	246.7	NA

Source: Ministry of Finance

Trade

Along with rice and wheat, barley imports are controlled by MAFF as a “Staple Food”. In fact, in the Japanese language wheat and barley are both called “*mugi*” where wheat is “*ko-mugi*” or small-*mugi* and barley is “*oh-mugi*” or big-*mugi*. Even though the import system for barley mimics the free market principle fairly closely, MAFF had been hesitant to remove barley from the state system entirely because it is a strategic alternative crop under the rice crop diversion program. As described in detail in the WHEAT section, starting April 2007, food barley can be imported under the Simultaneous Buy and Sell (SBS) system.

In 2006, imports from the U.S. on the CY basis dropped to the 2004 level. This was simply a timing issue. Successful U.S. bids in earlier Simultaneous Buy and Sell (SBS) tenders were small in volume and most of the successful bids were in the later bids for shipments arriving after October 2006. Although country origins of successful bids in the SBS tenders are not disclosed by MAFF, Post estimates that the United States captured about 30 percent of the 1.1 million MT within the feed barley SBS allocation or roughly 320,000 MT.

In 2007, imports from the United States increased on the calendar year basis to 501,000 MT, taking advantage of tight supplies from Canada and Australia. The volume is consistent with Post estimate of U.S. barley imports through the SBS tenders.

Table 33.

**Imports of Barley by Origin
(1,000 MT)**

	CY 2005	CY 2006	CY 2007
Barley for feed			
United States	314	154	501
Share	27.3%	13.7%	41.9%
Canada	265	303	145
Australia	568	607	413
Ukraine	0	60	0
China	0	0	64
Others	0	0	73
Total	1,147	1,124	1,196
Barley, others			
United States	3	2	1
Share	1.2%	0.7%	0.3%
Canada	38	37	55
Australia	241	221	155
Others	1	0	0
Total	283	259	210
Total Barley			
United States	317	155	501
Share	22.2%	11.2%	35.6%
Total	1,430	1,383	1,406

Source: Ministry of Finance

SBS Tender for Feed Barley

MAFF introduced the SBS system for barley for feed in JFY 1999. During JFY 1999, 359,940 MT of feed barley was contracted under three tenders. The amount had been raised every year reaching 850,000 MT in JFY 2002, remained at that level for 2003, and was raised in JFY 2004 to 900,000 MT, then to 1,000,000 MT in 2005 under five tenders. In 2006, the allocation was expanded further to 1,100,000 MT and remained at the same level in 2007.

Table 34.

SBS Imports of Feed Wheat and Barley (MT)

	Wheat	Barley
1st tender	11,995	170,310
2 nd	12,790	193,170
3 rd	16,170	204,180
4 th	7,405	116,400
5 th	19,460	183,990
6 th	20,555	249,785
Total	88,375	1,117,835

Source: MAFF

New SBS Tender for Food Barley

As reported in the wheat section in detail, MAFF started a new Simultaneous-Buy-Sell (SBS) system for food quality wheat and barley in Japan's new fiscal year beginning April 2007. The idea behind the SBS system is to allow for greater flexibility of imports and transparency in a portion of food quality barley as below.

Plans for Barley SBS Tenders:

The plan for food barley would allow for 200,000 MT of imports during the first year. Annual imports of food barley are about 250,000 MT: 220,000 from Australia for *shochu*, a distilled liquor; 30,000 from Canada for barley tea; and only a few thousand tons from the United States mainly for beer.

As with wheat there are two categories for barley. Category I is for vessel trade. Although most barley is imported by vessel, there will also be Category 2 for container units. Category 2 is basically reserved for varieties that MAFF does not import and is intended to provide a means for new varieties to enter the market.

Table 35.

SBS Imports of Food Barley

Tender (Date)	Category I			Category II		
	MT	Type	Country	MT	Type	Country
1st 26-Apr-07	8,500 2,000	for beer for beer	Australia Canada			
2nd 31-May-07				420 572	NA NA	USA Canada
3rd						

23-Aug-07						
4th 27-Sep-07	15,500	NA	Canada			
5th 25-Oct-07	5,000	for beer	Canada			
6th 29-Nov-07	30,000	NA	Australia	1,850 730 700	NA NA NA	USA Canada Australia
7th 12-Dec-07	12,000 45,000 4,000	NA NA for beer	Canada Australia Australia			
8th 31-Jan-08						
Total Volume	122,000			4,272		

Source: MAFF (As of January 31, 2008)

Stocks

As written in the previous CORN and SORGHUM sections, Japan holds emergency stocks of essential feed grains, i.e. corn, sorghum, and barley. The stocks of barley had been kept at 390,000-400,000 MT over a decade until 2003. With the policy to reduce the overall feed grain stocks, barley stocks were reduced to 350,000 MT in 2003 and kept at the same level since.

Marketing

As the majority of barley is purchased through the SBS tenders, the U.S. Grains Council (USGC) organized a reverse trade mission in July/August 2006 for Japanese buyers to obtain the latest information on barley production in the United States. USGC has also been preparing the industry both in the United States and Japan for the SBS tender program that started in April 2007.

RYE

Production

Production of rye is minimal in Japan.

Consumption

Rye is almost exclusively used for feed in Japan. The main uses of rye are for cattle feed and swine feed. Since there is practically no domestic production, annual rye consumption and imports are directly linked with domestic cattle and swine production. In 2006, the latest statistics available (Table 24), total rye utilization in feed was 219,254 MT: 55,959 MT for dairy cattle; 41,542 for beef cattle; and 117,591 MT for swine.

Prices

As shown below, U.S. rye is significantly less price competitive than that of Germany or Canada, the two major suppliers for Japan despite their sharp price increases in 2007. U.S. rye is still over three times more expensive than German rye.

Table 36.

**Average CIF Price of Rye by Origin
(\$US per MT)**

	CY 2005	CY 2006	CY 2007	%07/06
United States	344.3	615.6	630.7	102.5%
Canada	160.8	176.8	242.9	137.4%
Germany	143.5	138.2	202.4	146.5%

Source: Ministry of Finance

Trade

Germany dominates rye exports to the Japanese market because of its price competitiveness. Imports in CY 2007 declined in accordance with stagnant cattle and swine feed demand. As this situation continues into 2008, Post projects that imports in 2008 will remain at a level between 220,000-250,000 MT. In the medium term, a continued decline is expected as Japan's cattle and swine populations will likely continue shrinking. Prospects for U.S. rye exports to Japan are directly linked to the relative price of U.S. rye, and no significant advance is expected in the near future.

Table 37.

**Imports of Rye by Origin
(MT)**

	CY 2005	CY 2006	CY 2007
United States	879	284	501
Canada	12,272	8,350	60,373
Germany	268,531	263,236	154,278
Other	0	0	20
Total	281,682	271,870	215,172

Source: Ministry of Finance

Stocks

Unlike corn, sorghum and barley, Japan does not hold strategic emergency stocks of rye. Commercial stocks are estimated to be around 15,000 MT.

BEANS**Production**

Small red beans (azuki) and kidney beans account for almost all of Japan's dry bean production. Production volume of small red beans in 2007 increased 2.7 percent due to increases in both acreage and yield, especially in the major growing region of Hokkaido. The production volume for kidney beans increased at a greater rate of 14.7 percent with the production area expanding 4.0 percent. This is due to favorable weather conditions, namely high temperatures in the early growing season and during the pollination period, in Hokkaido where 90 percent of the planted area in Japan is located.

Table 38.

Crop Area and Production of Major Beans in Japan

	Small Red (Azuki) Beans		Kidney Beans	
	Area (Hectares)	Production (MT)	Area (Hectares)	Production (MT)
2003	42,000	58,800	12,800	23,000
2004	42,600	90,500	11,800	27,300
2005	38,300	78,900	11,200	25,700
2006	32,200	63,900	10,000	19,100
2007	32,700	65,600	10,400	21,900

Source: MAFF

Consumption

Japan's annual bean consumption had been fairly constant at around 230,000 metric tons. However, because the stagnant domestic economy and an increasing shift in consumer preferences toward Western desserts have negatively affected the demand for traditional Japanese confections (a major user of beans), bean consumption has been declining to 180,000 – 200,000 MT level in the last few years.

Table 39.

***Utilization of Major Beans by Product
(Percent)***

	Sweet Bean Paste	Candied Beans & Other Conf.	Cooked Beans	Fried & Roasted Beans	Other (mainly for home use)	Total
Small Red Beans	68.9	12.8	2.4	0.0	15.9	100.0
Lima & Kidney Beans	66.1	10.2	15.6	1.1	7.0	100.0
Peas	34.5	9.7	9.2	30.0	16.6	100.0
Broad Beans	21.8	0.0	10.0	68.2	0.0	100.0
Beans & Peas Total	60.9	10.5	9.8	8.0	10.8	100.0

Source: Unofficial estimate by MAFF

Trade

Japan's imports of small red beans and kidney beans combined increased by 12.6 percent from 39,920 MT in 2005 to 44,944 MT in 2007, reflecting reductions in Japanese domestic bean production in 2006. Another important trend to monitor is increasing imports of finished and semi-finished sweetened bean paste, shown in the chart below. Imports, predominantly from China, of processed sweetened bean paste (HS code 2005-40.190, 2005-51.190, and 2005-90.119) have more than doubled: from 37,970 MT in 1994 to

93,285 MT in 2007. This has had a substantially negative impact on the imports of dry beans.

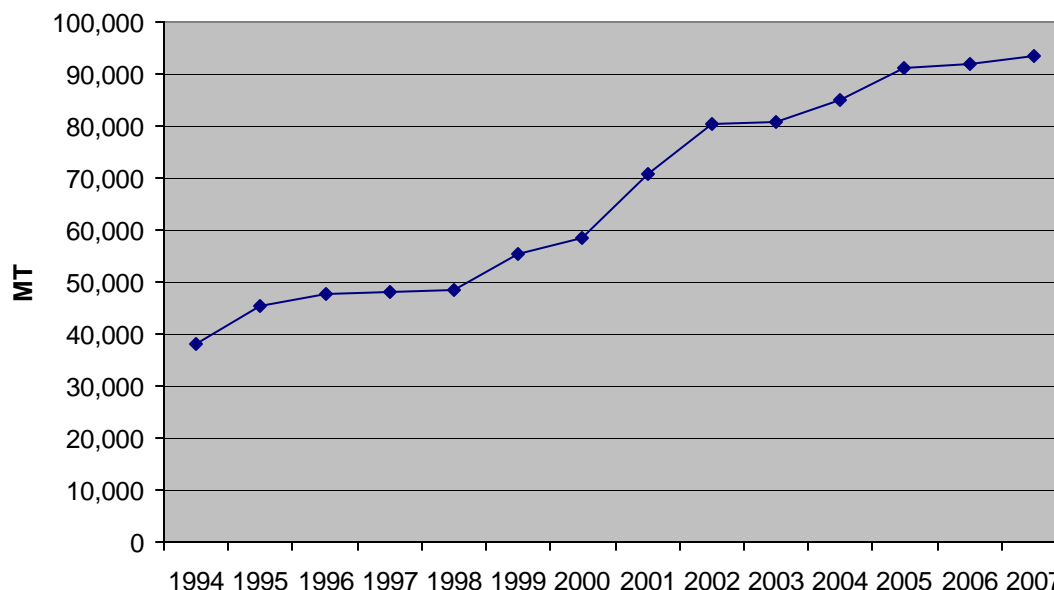
Table 40.

***Japanese Major Bean Imports by Supplier
(MT)***

	CY 2005	CY 2006	CY 2007
Small Red Beans	20,744	25,277	29,635
China	16,641	18,917	26,153
Canada	2,960	4,747	2,796
USA	738	1,076	495
Kidney Beans	16,552	14,643	15,309
China	3,358	2,927	2,318
Canada	9,277	7,462	7,894
USA	1,988	1,986	2,440
Peas	15,163	15,586	14,774
Canada	8,702	9,791	9,196
New Zealand	1,225	706	1,216
U.K.	1,695	2,309	1,965
USA	923	1,265	1,156
China	1,663	389	462
Hungary	636	638	551
Broad Beans	6,721	7,055	7,098
China	5,986	6,059	5,810
Other Beans	26,122	28,673	30,922
Total	85,302	91,234	97,738

Source: Ministry of Finance

Imports of Sweetened Bean Paste (1994-2007)



Policy

With the implementation of the Uruguay Round Agreement in JFY 1995, the quota system for bean imports was replaced by a low tariff rate quota system. A market access volume of 120,000 MT per annum is maintained with 10 percent duty applied within the current access volume. As mentioned in the previous section on trade, with a shrinking demand, caused mainly by increasing imports of finished/semi-finished products, particularly sweetened bean paste, the quota has not been fully utilized since 2000.

Marketing

The National Dry Bean Council (NDBC) has been an effective liaison between the U.S. industry and Japanese traditional importers (i.e. quota holders) of dry beans and the largest end-users (i.e. sweetened bean paste manufacturers). In 2007, NDBC organized both a trade mission for the U.S. trade to visit Japan and a reverse trade mission for the Japanese trade members to attend the International Convention held in Cancun Mexico. NDBC is also trying to expand the dry bean market in Japan by targeting general food manufacturers and foodservice operators with recipes such as soup and salad.

APPENDIX

Japan's New Farm Subsidy Scheme

The scheme consists of two different programs:

1. Payment to rectify the cost of production and market price; and
2. Payment to relieve the impact of price fluctuations.

And payment program 1 is broken into two components:

- 1) Payment based on the acreage during the base period (2004-06); and
- 2) Payment based on the current years' production volume and quality.

1. Payment to rectify the cost of production and market price (direct payment)**1-1. Eligibility to receive payments**

Recipients must fulfill all of the following criteria:

- 1) Farmers who are certified by each city/town/village as "core farmers" (hereinafter referred to as "certified farmers") or farmer organizations that aim to farm over 2/3 of the farmland in the community in a consolidated manner ("specified farmer organizations"). Note that the definition of a "community" is vague and normally composed of a rural unit with total acreage of 20 to 40 hectares.
- 2) The minimum size of farmland to be cultivated:

Category	Area	
	Hokkaido	Other areas
Certified farmers	10	4
Specified farmer organizations	20	20

Unit: Hectares (1 hectare = 2.47 acres)

Note: Average farm size is 17.46 hectares in Hokkaido and 1.26 outside of Hokkaido.

How to count the eligible acreage:

	Planted on rice paddy
	Planted on fields (non rice paddy)
	Other

	Counts towards total acreage
--	------------------------------

Rice	Soybeans	Wheat	Vegetables	Fruit	Total
2 ha	1.5 ha	0.5 ha	1 ha	2 ha	5 ha

Rice	Wheat	Barley	Soybeans	Soybeans	Total
3 ha	2 ha	1 ha	2 ha	2 ha	10 ha

Wheat	Soybeans	Beets	Potatoes	Swine	Total
3 ha	2 ha	5 ha	2 ha	3 ha	12 ha

However, these minimum acreage requirements can be relaxed by request through prefecture governors under the following conditions:

- a. Can be reduced by 20% when the farmland is located in places where it is physically/geographically difficult to have the targeted acreage. (For upland farming, can be reduced by up to 50%.)
- b. For organizations that are commissioned to manage more than half of the community's farmland for the rice acreage adjustment/reduction program, depending on the rate of their success in achieving the acreage reduction goals, (*Note 1*), the minimum requirement of 20 hectares can be reduced to 7 hectares. (For mountainous areas, it may be reduced further to 4 hectares.)

*Note 1. For details of Japan's Rice Policy, please refer to:
 "Rice Sector Policies in Japan," Outlook Report from the Economic
 Research Service, USDA, March 2003; and "Japan's Proposed Rice
 Reforms," GAIN Report #JA3012, February 2003.*

- c. If the farmer/organization is producing targeted farm products as core items and generating a high level of income by such practices as organic farming and multiple (crop) management, individual considerations will be given.

1-2. Eligible commodities

Wheat, barley, soybeans, sugar beets and potatoes for starch production.

The reasons for selecting these commodities are:

- 1) They are important in securing calorie supplies in Japan; and
- 2) They are produced in combination with other crops.

Note: Rice is excluded because there is no price support for rice, and commodity-based support will continue for fruit, vegetable and livestock producers.

1-3. Details of the subsidy payment

The payments are comprised of two components: 1) a payment based on the acreage during the base period (2004-06) and 2) a payment based on the current years' production volume and quality.

1) Payment based on the acreage during the base period (2004-06)

Payment per hectare (2.47 acres)

Commodity		Amount (in yen)
Wheat		277,400
Barley	2 row	210,700
	6 row	182,900
	Naked	237,500
Soybeans		202,300
Sugar beets		289,100
Potatoes for starch		370,300

Note: The amounts vary from one city/town/village to another depending on the average yield within that city/town/village. The above amounts are based on the national average.

How to calculate the actual payment amount (example):

A wheat farmer cultivates 8 hectares (ha) and shipped the following amounts of wheat for each year during the base period (2004-06).

The total shipment amount for each year is divided by the average yield in the region to be converted into acreage.

The converted acreages during the three years are averaged to obtain the base acreage.

		2004	2005	2006
A	Total shipment volume (kg)	27,720	22,320	23,520
B	Average yield in the region (kg/hectare)	3,300	2,400	2,800
A/B	Converted into acreage (hectare)	8.4	9.3	8.4
	Base acreage (hectare) (8.4 + 9.3 + 8.4) / 3	8.7		
	Total Subsidy payment (in yen) (277,400 x 8.7)	2,413,380		

This farmer will receive: 2,413,380 yen (payment per ha for wheat: 277,400 yen x Base acreage: 8.7)

Note: He will be able to receive this amount even if he switches his production from wheat to vegetables in coming years. However, if a vegetable farmer switches to wheat production, he will not be eligible to receive this payment.

2) Payment based on the current years' production volume and quality (amount in yen)

Quality/Grade	1st Rank				2nd Rank			
	A	B	C	D	A	B	C	D
Wheat (per 60 kg)	2,110	1,610	1,460	1,402	950	450	300	242
2 row barley (per 50 kg)	1,671	1,254	1,129	1,079	705	288	163	113
6 row barley (per 50 kg)	1,642	1,225	1,100	1,048	676	259	134	82
Naked barley (per 60 kg)	2,305	1,805	1,655	1,572	1,145	645	495	412

Quality/Grade	Brand				Non brand
	1st	2nd	3rd	for processing	1st-3rd
Soybeans (per 60 kg)	3,168	2,736	2,304	1,872	1,872

Quality/Brix	As brix decreases	Brix 17.1	As brix increases
Sugar beets (per mt)	Subtract 67 per brix 0.1	2,150	Add 67 per brix 0.1

Quality/Starch content	As content decreases	Starch @ 17.4%	As content increases
Potatoes for Starch (per mt)	Subtract 70 per 0.1%	3,650	Add 70 per 0.1%

How to calculate actual payment amount (example):

A soybean farmer who produced 6,600 kg of branded 1st grade and 3,300 kg of non-branded 3rd grade soybeans.

3,168 yen/60 kg x 6,600/60 kg = 348,480 yen

1,872 yen/60 kg x 3,300/60 kg = 102,960 yen

This farmer will receive: 451,440 yen (348,480 + 102,960)

How the above two payments are paid to a farmer (a case study)

A farmer whose current acreage consists of: 4 ha of rice; 2 ha of wheat; and 2 ha of soybeans.

His acreage in the previous three years was: 2.5 ha for wheat; and 1.5 ha for soybeans.

His production for this year was: 7,600 kg of Rank A, Grade 1 wheat; and 3,600 kg of Branded Grade 2 soybeans.

Yield information in his town:

Average year: wheat at 400 kg/10 ares, soybeans at 200 kg/10 ares.

This year: wheat at 380 kg/10 ares, soybeans at 180 kg/10 ares.

(This year's national average: wheat at 388 kg/10 ares, soybeans at 203 kg/10 ares.)

1) Payment based on the acreage during the base period (2004-06)

How to calculate his town's base (unit) payment:

		Wheat	Soybeans
A	National average (yen/10 ares)	27,740	20,230
B	National average yield (kg/10 ares)	388	203
C	The town's average yield (kg/10 ares)	400	200
A divided by B multiplied by C	His town's base (yen/10 ares)	28,598	19,931

Wheat:

His town's base (28,598 yen/10 ares) x His previous years' average acreage (2.5 ha)
= 714,950 yen A

Soybeans:

His town's base (19,931 yen/10 ares) x His previous years' average acreage (1.5 ha)
= 298,965 yen B

2) Payment based on the current years' production volume and quality

Wheat:

Base for Rank A, Grade 1 (2,110 yen/60 kg) x This year's production (7,600 kg)
= 267,266 yen C

Soybeans:

Base for Branded, Grade 2 (2,736 yen/60 kg) x This year's production (3,600 kg)
= 164,160 yen D

This farmer's total subsidy receipt will be (A+B+C+D) 1,445,341 yen.

2. Payment to relieve the impact of price fluctuations

2-1. Eligibility to receive payments

Same as for the above direct payments.

2-2. Eligible commodities

Rice, wheat, soybeans, sugar beets, and potatoes for starch production

2-3. Details of the subsidy payment

For each of the above listed products, incomes of the previous five years are taken, the highest and the lowest dismissed, and then the average of the remaining three years is calculated. In case the income of a particular year falls below the average, 90 percent of the difference between the year's income and the average will be subsidized. In the case where a farmer receives payment under the disaster relief program, the subsidy will be adjusted as needed so that the farmer is not compensated twice for a reduced harvest.

Finances for this relief fund will be shared between the national government and the farmers by a ratio of 3 to 1 (one fourth of the total), with farmer contributions most often deducted from their sales receipts.

How the above payments work (a case study)

A farmer produces 4 ha of rice, 2 ha of wheat and 2 ha of soybeans. Prices of rice and wheat fall by 10 percent and price of soybeans increases by 10 percent. Consequently, his income for rice decreases by 14,000 yen/10 ares, for wheat decreases by 2,000 yen/10 ares and for soybeans increases by 2,000 yen/10 ares.

A farmer's premium is calculated as follows:

Formula: (The commodity's average income) x (the farmer's acreage) x 10% x 90% x $\frac{1}{4}$

In this case, the farmer's premium will be:

For rice: 140,000 yen/10 ares x 4 ha = 5,600,000 yen

For wheat: 15,000 yen/10 ares x 2 ha = 300,000

For soybeans: 21,000 yen/10 ares x 2 ha = 420,000

Total: 6,320,000 yen x 10% x 90% x $\frac{1}{4}$ = 142,200 yen

Subsidy is calculated as follows:

Income reduction for rice: 14,000 yen/10 ares x 4 ha = 560,000 yen

Income reduction for wheat: 2,000 yen/10 ares x 2 ha = 40,000 yen

Income increase for soybeans: 2,000 yen/10 ares x 2 ha = 40,000 yen

Total income reduction: 560,000 yen

Total subsidy: 560,000 x 90% 504,000 yen

This farmer will receive: 504,000 yen (for his premium of 142,200 yen)

PS&D

Rice PS&D Table

Country	Japan									
Commodity	Rice, Milled						(1000 HA)(1000 MT)(MT/HA)			
	2006	Revised		2007	Estimate		2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		11/2006	11/2006		11/2007	11/2007		11/2008	11/2008	MM/YYYY
Area Harvested	1688	1688	1688	1650	1650	1673	0	0	1650	(1000 HA)
Beginning Stocks	2395	2414	2395	2381	2550	2406	2674	2843	2686	(1000 MT)
Milled Production	7786	7786	7786	7943	7943	7930	0	0	7900	(1000 MT)
Rough Production	10695	10695	10695	10911	10911	10893	0	0	10852	(1000 MT)
Milling Rate (.9999)	7280	7280	7280	7280	7280	7280	0	0	7280	(1000 MT)
MY Imports	650	700	675	700	700	700	0	0	700	(1000 MT)
TY Imports	650	700	700	700	700	700	0	0	700	(1000 MT)
TY Imp. from U.S.	0	350	350	0	350	350	0	0	350	(1000 MT)
Total Supply	10831	10900	10856	11024	11193	11036	2674	2843	11286	(1000 MT)
MY Exports	200	200	200	200	200	200	0	0	200	(1000 MT)
TY Exports	200	200	200	200	200	200	0	0	200	(1000 MT)
Total Consumption	8250	8150	8250	8150	8150	8150	0	0	8130	(1000 MT)
Ending Stocks	2381	2550	2406	2674	2843	2686	0	0	2956	(1000 MT)
Total Distribution	10831	10900	10856	11024	11193	11036	0	0	11286	(1000 MT)
Yield (Rough)	6.3359	6.3359	6.3359	6.61272	6.61272	6.51105	0	0	6.57697	(MT/HA)
				7	7	8				

Wheat PS&D Table

PSD Table

Country	Japan									
Commodity	Wheat									
	2006	Revised		2007	Estimate		(1000 HA)(1000 MT)(MT/HA)			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2006	07/2006		07/2007	07/2007		07/2008	07/2008	MM/YYYY
Area Harvested	218	218	218	220	220	210	0	0	205	(1000 HA)
Beginning Stocks	1075	930	1075	1242	927	1166	1175	925	1151	(1000 MT)
Production	837	837	837	858	858	910	0	0	834	(1000 MT)
MY Imports	5747	5400	5551	5500	5350	5300	0	0	5300	(1000 MT)
TY Imports	5747	5400	5747	5500	5350	5300	0	0	5300	(1000 MT)
TY Imp. from U.S.	3198	3150	3270	0	3050	3250	0	0	3100	(1000 MT)
Total Supply	7659	7167	7463	7600	7135	7376	1175	925	7285	(1000 MT)
MY Exports	417	420	417	425	420	425	0	0	425	(1000 MT)
TY Exports	417	420	417	425	420	425	0	0	425	(1000 MT)
Feed Consumption	300	180	180	300	150	150	0	0	120	(1000 MT)
FSI Consumption	5700	5640	5700	5700	5640	5650	0	0	5600	(1000 MT)
Total Consumption	6000	5820	5880	6000	5790	5800	0	0	5720	(1000 MT)
Ending Stocks	1242	927	1166	1175	925	1151	0	0	1140	(1000 MT)
Total Distribution	7659	7167	7463	7600	7135	7376	0	0	7285	(1000 MT)
Yield	3.83945	3.83945	3.83945	3.9	3.9	4.333333	0	0	4.068293	(MT/HA)

Corn PS&D Table

PSD Table

Country	Japan								
Commodity	Corn								
	2006	Revised		2007	Estimate		(1000 HA)(1000 MT)(MT/HA)		
	2006	Revised		2007	Estimate		2008	Forecast	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	10/2006	10/2006	10/2006	10/2007	10/2007	10/2007	10/2008	10/2008	10/2008
									MM/YYYY
Area Harvested	1	1	1	1	1	1	0	0	1 (1000 HA)
Beginning Stocks	937	943	937	1149	644	1150	950	545	1051 (1000 MT)
Production	1	1	1	1	1	1	0	0	1 (1000 MT)
MY Imports	16713	16200	16712	16300	16100	16100	0	0	16000 (1000 MT)
TY Imports	16713	16200	16712	16300	16100	16100	0	0	16000 (1000 MT)
TY Imp. from U.S.	14857	15700	15721	0	15600	15300	0	0	15100 (1000 MT)
Total Supply	17651	17144	17650	17450	16745	17251	950	545	17052 (1000 MT)
MY Exports	2	0	0	0	0	0	0	0	0 (1000 MT)
TY Exports	2	0	0	0	0	0	0	0	0 (1000 MT)
Feed Consumption	11900	11900	11900	11800	11700	11600	0	0	11400 (1000 MT)
FSI Consumption	4600	4600	4600	4700	4500	4600	0	0	4600 (1000 MT)
Total Consumption	16500	16500	16500	16500	16200	16200	0	0	16000 (1000 MT)
Ending Stocks	1149	644	1150	950	545	1051	0	0	1052 (1000 MT)
Total Distribution	17651	17144	17650	17450	16745	17251	0	0	17052 (1000 MT)
Yield	1	1	1	1	1	1	0	0	1 (MT/HA)

Sorghum PS&D Table

PSD Table

Country	Japan									
Commodity	Sorghum									
	2006	Revised		2007	Estimate		(1000 HA)(1000 MT)(MT/HA)	2008	Forecast	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008	MM/YYYY
Area Harvested	0	0	0	0	0	0	0	0	0	(1000 HA)
Beginning Stocks	179	189	179	105	159	128	105	109	128	(1000 MT)
Production	0	0	0	0	0	0	0	0	0	(1000 MT)
MY Imports	1276	1350	1269	1350	1300	1250	0	0	1230	(1000 MT)
TY Imports	1276	1350	1269	1350	1300	1250	0	0	1230	(1000 MT)
TY Imp. from U.S.	675	1100	888	0	1000	950	0	0	930	(1000 MT)
Total Supply	1455	1539	1448	1455	1459	1378	105	109	1358	(1000 MT)
MY Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
Feed Consumption	1350	1380	1320	1350	1350	1250	0	0	1230	(1000 MT)
FSI Consumption	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Consumption	1350	1380	1320	1350	1350	1250	0	0	1230	(1000 MT)
Ending Stocks	105	159	128	105	109	128	0	0	128	(1000 MT)
Total Distribution	1455	1539	1448	1455	1459	1378	0	0	1358	(1000 MT)
Yield	0	0	0	0	0	0	0	0	0	(MT/HA)

Barley PS&D Table

PSD Table

Country	Japan								
Commodity	Barley								
	2006	Revised		2007	Estimate		(1000 HA)(1000 MT)(MT/HA)		
	2006	Revised		2007	Estimate		2008	Forecast	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	10/2006	10/2006	10/2006	10/2007	10/2007	10/2007	10/2008	10/2008	MM/YYYY
Area Harvested	54	54	54	50	50	54	0	0	52 (1000 HA)
Beginning Stocks	597	594	597	480	518	530	445	433	475 (1000 MT)
Production	174	174	174	165	165	195	0	0	172 (1000 MT)
MY Imports	1359	1350	1359	1350	1300	1300	0	0	1300 (1000 MT)
TY Imports	1359	1350	1359	1350	1300	1300	0	0	1300 (1000 MT)
TY Imp. from U.S.	310	300	428	0	300	400	0	0	400 (1000 MT)
Total Supply	2130	2118	2130	1995	1983	2025	445	433	1947 (1000 MT)
MY Exports	0	0	0	0	0	0	0	0	0 (1000 MT)
TY Exports	0	0	0	0	0	0	0	0	0 (1000 MT)
Feed Consumption	1350	1300	1300	1250	1250	1250	0	0	1180 (1000 MT)
FSI Consumption	300	300	300	300	300	300	0	0	290 (1000 MT)
Total Consumption	1650	1600	1600	1550	1550	1550	0	0	1470 (1000 MT)
Ending Stocks	480	518	530	445	433	475	0	0	477 (1000 MT)
Total Distribution	2130	2118	2130	1995	1983	2025	0	0	1947 (1000 MT)
Yield	3.22222	3.22222	3.22222	3.3	3.3	3.61111	0	0	3.307692 (MT/HA)

Rye PS&D Table

PSD Table

Country	Japan								
Commodity	Rye								
	2006	Revised		2007	Estimate		(1000 HA)(1000 MT)(MT/HA)		
	2006	Revised		2007	Estimate		2008	Forecast	UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin	10/2006	10/2006	10/2006	10/2007	10/2007	10/2007	10/2008	10/2008	MM/YYYY
Area Harvested	0	0	0	0	0	0	0	0	0 (1000 HA)
Beginning Stocks	20	20	20	20	15	23	20	15	23 (1000 MT)
Production	0	0	0	0	0	0	0	0	0 (1000 MT)
MY Imports	175	270	258	75	270	250	0	0	240 (1000 MT)
TY Imports	175	270	258	75	270	250	0	0	240 (1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0	0	0	0 (1000 MT)
Total Supply	195	290	278	95	285	273	20	15	263 (1000 MT)
MY Exports	0	0	0	0	0	0	0	0	0 (1000 MT)
TY Exports	0	0	0	0	0	0	0	0	0 (1000 MT)
Feed Consumption	150	250	230	50	245	225	0	0	220 (1000 MT)
FSI Consumption	25	25	25	25	25	25	0	0	23 (1000 MT)
Total Consumption	175	275	255	75	270	250	0	0	243 (1000 MT)
Ending Stocks	20	15	23	20	15	23	0	0	20 (1000 MT)
Total Distribution	195	290	278	95	285	273	0	0	263 (1000 MT)
Yield	0	0	0	0	0	0	0	0	0 (MT/HA)

Beans PS&D Table

PSD Table

Country	Japan									
Commodity	Beans									
	2006	Revised		2007	Estimate		(1000 HA)(1000 MT)(MT/HA)			
							2008	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01/2006	01/2006		01/2006	01/2006		01/2006	01/2006	MM/YYYY
Area Harvested	0	42	42	0	45	43	0	0	45	(1000 HA)
Beginning Stocks	0	5	5	0	0	0	0	0	0	(1000 MT)
Production	0	83	83	0	85	88	0	0	85	(1000 MT)
MY Imports	0	91	91	0	85	88	0	0	85	(1000 MT)
TY Imports	0	91	91	0	85	98	0	0	85	(1000 MT)
TY Imp. from U.S.	0	13	13	0	10	13	0	0	10	(1000 MT)
Total Supply	0	179	179	0	170	176	0	0	170	(1000 MT)
MY Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
TY Exports	0	0	0	0	0	0	0	0	0	(1000 MT)
Feed Consumption	0	0	0	0	0	0	0	0	0	(1000 MT)
FSI Consumption	0	179	179	0	170	176	0	0	170	(1000 MT)
Total Consumption	0	179	179	0	170	176	0	0	170	(1000 MT)
Ending Stocks	0	0	0	0	0	0	0	0	0	(1000 MT)
Total Distribution	0	179	179	0	170	176	0	0	170	(1000 MT)
Yield	0	1.97619	1.97619	0	1.88888	2.04651	0	0	1.88888	(MT/HA)